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HEARINGS

BEFORE THE

SPECIAL COMMITTEE TO INVESTIGATE
WHITEWATER DEVELOPMENT CORPORATION
AND RELATED MATTERS

ADMINISTERED BY THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

VOLUME XX

ON

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(525)	<i>United States v. McDougal</i> , LR-CR-95-173 (E.D. Ark., April 5, 1996), pp. 4069-4070; James Stewart, "Blood Sport," pp. 316-318.	558
(528)	Affidavit of Joseph (Mike) Narisi, June 13, 1996, p. 1	560
(531)	NBC Interview of David Hale, 2 of 4, November 4, 1993, pp. 8-11.	562
(539)	Letter from Robert Fiske to Randy Coleman, March 19, 1994	566
(541)	See endnote 539.	
(542)	See endnote 539.	
(543)	<i>United States v. Hale</i> , LR-CR-93-147 (E.D. Ark., March 22, 1994), p. 14.	570
(544)	See endnote 543.	
(550)	<i>United States v. Hale</i> , LR-CR-93-147(1) (E.D. Ark., March 25, 1996), p. 7.	571
(553)	<i>United States v. Hale</i> , LR-CR-93-147 (E.D. Ark., March 22, 1994), p. 1.	572
(562)	While Starr Tackles Hale, Arkansas Democrat-Gazette, November 20, 1995, Jonathan Weil.	578
(563)	See endnote 562.	
(564)	See endnote 562.	
(565)	Stodola still wants Hale Tried on State Charges, Arkansas Democrat-Gazette, May 30, 1996, Grant Tennille; Letter from Mark Stodola to Kenneth Starr, February 13, 1996, pp. 1-3.	582
(567)	Hale Hit with \$468,496 Judgment, Arkansas Democrat-Gazette, May 1991, p. 1B, George Wells.	583
(568)	Character Witnesses, The Arkansas Times, March 1996, pp. 1-4, John Haman.	585
(569)	CNN Interview of David Hale, November 24, 1993, pp. 18-19	589
(570)	CNN Interview of David Hale, November 24, 1993, pp. 22-25	591
(571)	NBC Interview of David Hale, 1 of 4, November 4, 1993, pp. 26-27.	596
(576)	See endnote 505.	
(578)	Document BL 11721; Lindsey's Notes of September 20, 1993 Meeting with Gerth. Document S 020300; Gearan's Notes of September 20, 1993 Meeting with Gerth.	598
(581)	NBC Interview of David Hale, 1 of 4, November 4, 1993, pp. 11-12.	600
(586)	See endnote 502.	
(587)	See endnote 501.	
(588)	See endnote 499.	
(589)	See endnote 500.	
(590)	See endnote 500.	
(591)	Jury Saved Hardest For Last, Arkansas Democrat-Gazette, May 30, 1996, Julian E. Barnes.	602
(593)	CNN Interview of David Hale, November 24, 1993, pp. 33	603
(598)	Document DKS 012983; Governor's Mansion Log	604

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<i>Endnote</i>	<i>Page</i>
(599) Document DKS _N 013423; Memorandum from Jim McDougal to Governor Clinton regarding "Problems with Sanitation Department," January 18, 1986. Document DKS _N 013418; Memorandum from Janice Choate to Governor Clinton regarding "Jim McDougal," January 30, 1986.	605
(601) Letter from Theodore B. Olsen to Michael Chertoff and Richard Ben-Veniste, Special Counsels, Special Whitewater Committee, May 23, 1996.	607
(602) <i>United States v. North</i> , 910 F.2d 843, pp. 860–861 (D.C. Cir. 1990).	609
(603) See endnote 602.	
(604) See endnote 565.	
(608) Letter from John A. Mintz to Chairman Alfonse M. D'Amato and Senator Paul S. Sarbanes, June 6, 1996.	611
(609) Miscellaneous Memorandums dated: December 27, 1995 from Richard Ben-Veniste and Lance Cole to Michael Chertoff and Robert Giuffra regarding "January Deposition Schedule"; January 3, 1996 from Richard Ben-Veniste, Neal Kravitz, and Lance Cole to Michael Chertoff and Robert Giuffra regarding "David Hale Documents and Deposition Testimony"; February 14, 1996 from Richard Ben-Veniste to Michael Chertoff regarding "David Hale Subpoena"; February 22, 1996 from Richard Ben-Veniste to Michael Chertoff regarding "David Hale Testimony"; February 26, 1996 from Richard Ben-Veniste to Michael Chertoff regarding "Majority Staff Memorandum of February 23rd regarding David Hale"; and April 29, 1996 from Richard Ben-Veniste to Michael Chertoff regarding "David Hale Subpoena".	613

104TH CONGRESS
1ST SESSION

S. RES. 120

Establishing a special committee administered by the Committee on Banking, Housing, and Urban Affairs to conduct an investigation involving Whitewater Development Corporation, Madison Guaranty Savings and Loan Association, Capital Management Services, Inc., the Arkansas Development Finance Authority, and other related matters.

IN THE SENATE OF THE UNITED STATES

MAY 17 (legislative day, MAY 15), 1995

Mr. D'AMATO (for himself and Mr. DOLE) submitted the following resolution:
which was considered and agreed to

RESOLUTION

Establishing a special committee administered by the Committee on Banking, Housing, and Urban Affairs to conduct an investigation involving Whitewater Development Corporation, Madison Guaranty Savings and Loan Association, Capital Management Services, Inc., the Arkansas Development Finance Authority, and other related matters.

1 *Resolved,*

2 SECTION 1. ESTABLISHMENT OF SPECIAL COMMITTEE.

3 (a) ESTABLISHMENT.—There is established a special
4 committee administered by the Committee on Banking,
5 Housing, and Urban Affairs to be known as the “Special

1 Committee to Investigate Whitewater Development Cor-
2 poration and Related Matters" (hereafter in this resolu-
3 tion referred to as the "special committee").

4 (b) PURPOSES.—The purposes of the special commit-
5 tee are—

6 (1) to conduct an investigation and public hear-
7 ings into, and study of, whether improper conduct
8 occurred regarding the way in which White House
9 officials handled documents in the office of White
10 House Deputy Counsel Vincent Foster following his
11 death;

12 (2) to conduct an investigation and public hear-
13 ings into, and study of, the following matters devel-
14 oped during, or arising out of, the investigation and
15 public hearings concluded by the Committee on
16 Banking, Housing, and Urban Affairs prior to the
17 adoption of this resolution—

18 (A) whether any person has improperly
19 handled confidential Resolution Trust Corpora-
20 tion (hereafter in this resolution referred to as
21 the "RTC") information relating to Madison
22 Guaranty Savings and Loan Association or
23 Whitewater Development Corporation, including
24 whether any person has improperly commu-

1 nicated such information to individuals ref-
2 erenced therein;

3 (B) whether the White House has engaged
4 in improper contacts with any other agency or
5 department in the Government with regard to
6 confidential RTC information relating to Madi-
7 son Guaranty Savings and Loan Association or
8 Whitewater Development Corporation;

9 (C) whether the Department of Justice has
10 improperly handled RTC criminal referral re-
11 lating to Madison Guaranty Savings and Loan
12 Association or Whitewater Development Cor-
13 poration;

14 (D) whether RTC employees have been im-
15 properly importuned, prevented, restrained, or
16 deterred in conducting investigations or making
17 enforcement recommendations relating to Madi-
18 son Guaranty Savings and Loan Association or
19 Whitewater Development Corporation; and

20 (E) whether the report issued by the Office
21 of Government Ethics on July 31, 1994, or re-
22 lated transcripts of deposition testimony—

23 (i) were improperly released to White
24 House officials or others prior to their tes-
25 timony before the Committee on Banking,

Housing, and Urban Affairs pursuant to Senate Resolution 229 (103d Congress); or (ii) were used to communicate to White House officials or to others confidential RTC information relating to Madison Guaranty Savings and Loan Association or Whitewater Development Corporation;

(3) to conduct an investigation and public hearings into, and study of, all matters that have any tendency to reveal the full facts about—

(A) the operations, solvency, and regulation of Madison Guaranty Savings and Loan Association, and any subsidiary, affiliate, or other entity owned or controlled by Madison Guaranty Savings and Loan Association;

(B) the activities, investments, and tax liability of Whitewater Development Corporation and, as related to Whitewater Development Corporation, of its officers, directors, and shareholders;

(C) the policies and practices of the RTC and the Federal banking agencies (as that term is defined in section 3 of the Federal Deposit Insurance Act) regarding the legal representa-

tion of such agencies with respect to Madison
Guaranty Savings and Loan Association;

(D) the handling by the RTC, the Office of
Thrift Supervision, the Federal Deposit Insur-
ance Corporation, and the Federal Savings and
Loan Insurance Corporation of civil or adminis-
trative actions against parties regarding Madi-
son Guaranty Savings and Loan Association;

(E) the sources of funding and the lending
practices of Capital Management Services, Inc.,
and its supervision and regulation by the Small
Business Administration, including any alleged
diversion of funds to Whitewater Development
Corporation;

(F) the bond underwriting contracts be-
tween Arkansas Development Finance Author-
ity and Lasater & Company; and

(G) the lending activities of Perry County
Bank, Perryville, Arkansas, in connection with
the 1990 Arkansas gubernatorial election;

(4) to make such findings of fact as are war-
ranted and appropriate;

(5) to make such recommendations, including
recommendations for legislative, administrative, or

1 other actions, as the special committee may deter-
2 mine to be necessary or desirable; and

3 (6) to fulfill the constitutional oversight and in-
4 formational functions of the Congress with respect
5 to the matters described in this section.

6 **SEC. 2. MEMBERSHIP AND ORGANIZATION OF THE SPECIAL**
7 **COMMITTEE.**

8 (a) **MEMBERSHIP.—**

9 (1) **IN GENERAL.—**The special committee shall
10 consist of—

11 (A) the members of the Committee on
12 Banking, Housing, and Urban Affairs; and

13 (B) the chairman and ranking member of
14 the Committee on the Judiciary, or their des-
15 ignees from the Committee on the Judiciary.

16 (2) **SENATE RULE XXV.—**For the purpose of
17 paragraph 4 of rule XXV of the Standing Rules of
18 the Senate, service of a Senator as the chairman or
19 other member of the special committee shall not be
20 taken into account.

21 (b) **ORGANIZATION OF SPECIAL COMMITTEE.—**

22 (1) **CHAIRMAN.—**The chairman of the Commit-
23 tee on Banking, Housing, and Urban Affairs shall
24 serve as the chairman of the special committee

1 (hereafter in this resolution referred to as the
2 "chairman").

3 (2) RANKING MEMBER.—The ranking member
4 of the Committee on Banking, Housing, and Urban
5 Affairs shall serve as the ranking member of the
6 special committee (hereafter in this resolution re-
7 ferred to as the "ranking member").

8 (3) QUORUM.—A majority of the members of
9 the special committee shall constitute a quorum for
10 the purpose of reporting a matter or recommenda-
11 tion to the Senate. A majority of the members of the
12 special committee, or one-third of the members of
13 the special committee if at least one member of the
14 minority party is present, shall constitute a quorum
15 for the conduct of other business. One member of
16 the special committee shall constitute a quorum for
17 the purpose of taking testimony.

18 (c) RULES AND PROCEDURES.—Except as otherwise
19 specifically provided in this resolution, the special commit-
20 tee's investigation, study, and hearings shall be governed
21 by the Standing Rules of the Senate and the Rules of Pro-
22 cedure of the Committee on Banking, Housing, and Urban
23 Affairs. The special committee may adopt additional rules
24 or procedures not inconsistent with this resolution or the
25 Standing Rules of the Senate if the chairman and ranking

1 member agree that such additional rules or procedures are
2 necessary to enable the special committee to conduct the
3 investigation, study, and hearings authorized by this reso-
4 lution. Any such additional rules and procedures shall be-
5 come effective upon publication in the Congressional
6 Record.

7 **SEC. 3. STAFF OF THE SPECIAL COMMITTEE.**

8 (a) APPOINTMENTS.—To assist the special committee
9 in the investigation, study, and hearings authorized by this
10 resolution, the chairman and the ranking member each
11 may appoint special committee staff, including consult-
12 ants.

13 (b) ASSISTANCE FROM THE SENATE LEGAL COUN-
14 SEL.—To assist the special committee in the investigation,
15 study, and hearings authorized by this resolution, the Sen-
16 ate Legal Counsel and the Deputy Senate Legal Counsel
17 shall work with and under the jurisdiction and authority
18 of the special committee.

19 (c) ASSISTANCE FROM THE COMPTROLLER GEN-
20 ERAL.—The Comptroller General of the United States is
21 requested to provide from the General Accounting Office
22 whatever personnel or other appropriate assistance as may
23 be required by the special committee, or by the chairman
24 or the ranking member.

1 **SEC. 4. PUBLIC ACTIVITIES OF THE SPECIAL COMMITTEE.**

2 (a) **IN GENERAL.**—Consistent with the rights of per-
3 sons subject to investigation and inquiry, the special com-
4 mittee shall make every effort to fulfill the right of the
5 public and the Congress to know the essential facts and
6 implications of the activities of officials of the United
7 States Government and other persons and entities with re-
8 spect to the matters under investigation and study, as de-
9 scribed in section 1.

10 (b) **DUTIES.**—In furtherance of the right of the pub-
11 lic and the Congress to know, the special committee—

12 (1) shall hold, as the chairman (in consultation
13 with the ranking member) considers appropriate and
14 in accordance with paragraph 5(b) of rule XXVI of
15 the Standing Rules of the Senate, hearings on spe-
16 cific subjects, subject to consultation and coordina-
17 tion with the independent counsel appointed pursu-
18 ant to chapter 40 of title 28, United States Code,
19 in Division No. 94-1 (D.C. Cir. August 5, 1994)
20 (hereafter in this resolution referred to as “the inde-
21 pendent counsel”);

22 (2) may make interim reports to the Senate as
23 it considers appropriate; and

24 (3) shall make a final comprehensive public re-
25 port to the Senate which contains—

1 (A) a description of all relevant factual de-
2 terminations; and

3 (B) recommendations for legislation, if
4 necessary.

5 **SEC. 5. POWERS OF THE SPECIAL COMMITTEE.**

6 (a) IN GENERAL.—The special committee shall do ev-
7 erything necessary and appropriate under the laws and the
8 Constitution of the United States to conduct the investiga-
9 tion, study, and hearings authorized by section 1.

10 (b) EXERCISE OF AUTHORITY.—The special commit-
11 tee may exercise all of the powers and responsibilities of
12 a committee under rule XXVI of the Standing Rules of
13 the Senate and section 705 of the Ethics in Government
14 Act of 1978, including the following:

15 (1) SUBPOENA POWERS.—To issue subpoenas
16 or orders for the attendance of witnesses or for the
17 production of documentary or physical evidence be-
18 fore the special committee. A subpoena or order may
19 be authorized by the special committee or by the
20 chairman with the agreement of the ranking mem-
21 ber, and may be issued by the chairman or any other
22 member of the special committee designated by the
23 chairman, and may be served by any person des-
24 ignated by the chairman or the authorized member
25 anywhere within or outside of the borders of the

1 United States to the full extent permitted by law.

2 The chairman, or any other member of the special
3 committee, is authorized to administer oaths to any
4 witnesses appearing before the special committee. If
5 a return on a subpoena or order for the production
6 of documentary or physical evidence is incomplete or
7 accompanied by an objection, the chairman (in con-
8 sultation with the ranking member) may convene a
9 meeting or hearing to determine the adequacy of the
10 return and to rule on the objection. At a meeting or
11 hearing on such a return, one member of the special
12 committee shall constitute a quorum. The special
13 committee shall not initiate procedures leading to
14 civil or criminal enforcement of a subpoena unless
15 the person or entity to whom the subpoena is di-
16 rected refuses to produce the required documentary
17 or physical evidence after having been ordered and
18 directed to do so.

19 (2) COMPENSATION AUTHORITY.—To employ
20 and fix the compensation of such clerical, investiga-
21 tory, legal, technical, and other assistants as the
22 special committee, or the chairman or the ranking
23 member, considers necessary or appropriate.

1 (3) MEETINGS.—To sit and act at any time or
2 place during sessions, recesses, and adjournment pe-
3 riods of the Senate.

4 (4) HEARINGS.—To hold hearings, take testi-
5 mony under oath, and receive documentary or phys-
6 ical evidence relating to the matters and questions it
7 is authorized to investigate or study. Unless the
8 chairman and the ranking member otherwise agree,
9 the questioning of a witness or a panel of witnesses
10 at a hearing shall be limited to one initial 30-minute
11 turn each for the chairman and the ranking mem-
12 ber, or their designees, including majority and mi-
13 nority staff, and thereafter to 10-minute turns by
14 each member of the special committee if 5 or more
15 members are present, and to 15-minute turns by
16 each member of the special committee if fewer than
17 5 members are present. A member may be permitted
18 further questions of the witness or panel of wit-
19 nesses, either by using time that another member
20 then present at the hearing has yielded for that pur-
21 pose during the yielding member's turn, or by using
22 time allotted after all members have been given an
23 opportunity to question the witness or panel of wit-
24 nesses. At all times, unless the chairman and the
25 ranking member otherwise agree, the questioning

1 shall alternate back and forth between members of
2 the majority party and members of the minority
3 party. In their discretion, the chairman and the
4 ranking member, respectively, may designate major-
5 ity or minority staff to question a witness or a panel
6 of witnesses at a hearing during time yielded by a
7 member of the chairman's or the ranking member's
8 party then present at the hearing for his or her
9 turn.

10 (5) TESTIMONY OF WITNESSES.—To require by
11 subpoena or order the attendance, as a witness be-
12 fore the special committee or at a deposition, of any
13 person who may have knowledge or information con-
14 cerning any of the matters that the special commit-
15 tee is authorized to investigate and study.

16 (6) IMMUNITY.—To grant a witness immunity
17 under sections 6002 and 6005 of title 18, United
18 States Code, provided that the independent counsel
19 has not informed the special committee in writing
20 that immunizing the witness would interfere with the
21 ability of the independent counsel successfully to
22 prosecute criminal violations. Not later than 10 days
23 before the special committee seeks a Federal court
24 order for a grant of immunity by the special commit-
25 tee, the Senate Legal Counsel shall cause to be de-

1 livered to the independent counsel a written request
2 asking the independent counsel promptly to inform
3 the special committee in writing if, in the judgment
4 of the independent counsel, the grant of immunity
5 would interfere with the ability of the independent
6 counsel successfully to prosecute criminal violations.
7 The Senate Legal Counsel's written request of the
8 independent counsel required by this paragraph shall
9 be in addition to all notice requirements set forth in
10 sections 6002 and 6005 of title 18, United States
11 Code.

12 (7) DEPOSITIONS.—To take depositions and
13 other testimony under oath anywhere within the
14 United States, to issue orders that require witnesses
15 to answer written interrogatories under oath, and to
16 make application for the issuance of letters rogatory.
17 All depositions shall be conducted jointly by majority
18 and minority staff of the special committee. A wit-
19 ness at a deposition shall be examined upon oath ad-
20 ministered by a member of the special committee or
21 an individual authorized by local law to administer
22 oaths, and a complete transcription or electronic re-
23 cording of the deposition shall be made. Questions
24 shall be propounded first by majority staff of the
25 special committee and then by minority staff of the

1 special committee. Any subsequent round of ques-
2 tioning shall proceed in the same order. Objections
3 by the witness as to the form of questions shall be
4 noted for the record. If a witness objects to a ques-
5 tion and refuses to answer on the basis of relevance
6 or privilege, the special committee staff may proceed
7 with the deposition, or may, at that time or at a
8 subsequent time, seek a ruling on the objection from
9 the chairman. If the chairman overrules the objec-
10 tion, the chairman may order and direct the witness
11 to answer the question, but the special committee
12 shall not initiate procedures leading to civil or crimi-
13 nal enforcement unless the witness refuses to answer
14 after having been ordered and directed to answer.

15 (8) DELEGATIONS TO STAFF.—To issue com-
16 missions and to notice depositions for staff members
17 to examine witnesses and to receive evidence under
18 oath administered by an individual authorized by
19 local law to administer oaths. The special committee,
20 or the chairman with the concurrence of the ranking
21 member, may delegate to designated staff members
22 of the special committee the power to issue deposi-
23 tion notices authorized pursuant to this paragraph.

24 (9) INFORMATION FROM OTHER SOURCES.—To
25 require by subpoena or order—

1 (A) any department, agency, entity, officer,
2 or employee of the United States Government;

3 (B) any person or entity purporting to act
4 under color or authority of State or local law;
5 or

6 (C) any private person, firm, corporation,
7 partnership, or other organization;

8 to produce for consideration by the special commit-
9 tee or for use as evidence in the investigation, study,
10 or hearings of the special committee, any book,
11 check, canceled check, correspondence, communica-
12 tion, document, financial record, paper, physical evi-
13 dence, photograph, record, recording, tape, or any
14 other material relating to any of the matters or
15 questions that the special committee is authorized to
16 investigate and study which any such person or en-
17 tity may possess or control.

18 (10) RECOMMENDATIONS TO THE SENATE.—To
19 make to the Senate any recommendations, by report
20 or resolution, including recommendations for crimi-
21 nal or civil enforcement, which the special committee
22 may consider appropriate with respect to—

23 (A) the willful failure or refusal of any per-
24 son to appear before it, or at a deposition, or

1 to answer interrogatories, in compliance with a
2 subpoena or order;

3 (B) the willful failure or refusal of any
4 person to answer questions or give testimony
5 during the appearance of that person as a wit-
6 ness before the special committee, or at a depo-
7 sition, or in response to interrogatories; or

8 (C) the willful failure or refusal of—

9 (i) any officer or employee of the
10 United States Government;

11 (ii) any person or entity purporting to
12 act under color or authority of State or
13 local law; or

14 (iii) any private person, partnership,
15 firm, corporation, or organization;

16 to produce before the special committee, or at
17 a deposition, or at any time or place designated
18 by the committee, any book, check, canceled
19 check, correspondence, communication, docu-
20 ment, financial record, paper, physical evidence,
21 photograph, record, recording, tape, or any
22 other material in compliance with any subpoena
23 or order.

1 (11) CONSULTANTS.—To procure the tem-
2 porary or intermittent services of individual consult-
3 ants, or organizations thereof.

4 (12) OTHER GOVERNMENT PERSONNEL.—To
5 use, on a reimbursable basis and with the prior con-
6 sent of the Government department or agency con-
7 cerned, the services of the personnel of such depart-
8 ment or agency.

9 (13) OTHER CONGRESSIONAL STAFF.—To use,
10 with the prior consent of any member of the Senate
11 or the chairman or the ranking member of any other
12 Senate committee or the chairman or ranking mem-
13 ber of any subcommittee of any committee of the
14 Senate, the facilities or services of the appropriate
15 members of the staff of such member of the Senate
16 or other Senate committee or subcommittee, when-
17 ever the special committee or the chairman or the
18 ranking member considers that such action is nec-
19 essary or appropriate to enable the special commit-
20 tee to conduct the investigation, study, and hearings
21 authorized by this resolution.

22 (14) ACCESS TO INFORMATION AND EVI-
23 DENCE.—To permit any members of the special
24 committee, staff director, counsel, or other staff
25 members or consultants designated by the chairman

1 , or the ranking member, access to any data, evidence,
2 information, report, analysis, document, or paper—

3 (A) that relates to any of the matters or
4 questions that the special committee is author-
5 ized to investigate or study under this resolu-
6 tion;

7 (B) that is in the custody or under the
8 control of any department, agency, entity, offi-
9 cer, or employee of the United States Govern-
10 ment, including those which have the power
11 under the laws of the United States to inves-
12 tigate any alleged criminal activities or to pros-
13 ecute persons charged with crimes against the
14 United States without regard to the jurisdiction
15 or authority of any other Senate committee or
16 subcommittee; and

17 (C) that will assist the special committee
18 to prepare for or conduct the investigation,
19 study, and hearings authorized by this resolu-
20 tion.

21 (15) REPORTS OF VIOLATIONS OF LAW.—To re-
22 port possible violations of any law to appropriate
23 Federal, State, or local authorities.

24 (16) EXPENDITURES.—To expend, to the ex-
25 tent that the special committee determines necessary

1 and appropriate, any money made available to the
2 special committee by the Senate to carry out this
3 resolution.

4 (17) TAX RETURN INFORMATION.—To inspect
5 and receive, in accordance with the procedures set
6 forth in sections 6103(f)(3) and 6104(a)(2) of the
7 Internal Revenue Code of 1986, any tax return or
8 tax return information, held by the Secretary of the
9 Treasury, if access to the particular tax-related in-
10 formation sought is necessary to the ability of the
11 special committee to carry out section 1(b)(3)(B).

12 **SEC. 6. PROTECTION OF CONFIDENTIAL INFORMATION.**

13 (a) NONDISCLOSURE.—No member of the special
14 committee or the staff of the special committee shall dis-
15 close, in whole or in part or by way of summary, to any
16 person other than another member of the special commit-
17 tee or other staff of the special committee, for any purpose
18 or in connection with any proceeding, judicial or otherwise,
19 any testimony taken, including the names of witnesses tes-
20 tifying, or material presented, in depositions or at closed
21 hearings, or any confidential materials or information, un-
22 less authorized by the special committee or the chairman
23 in concurrence with the ranking member.

24 (b) STAFF NONDISCLOSURE AGREEMENT.—All mem-
25 bers of the staff of the special committee with access to

1 confidential information within the control of the special
2 committee shall, as a condition of employment, agree in
3 writing to abide by the conditions of this section and any
4 nondisclosure agreement promulgated by the special com-
5 mittee that is consistent with this section.

6 (c) SANCTIONS.—

7 (1) MEMBER SANCTIONS.—The case of any
8 Senator who violates the security procedures of the
9 special committee may be referred to the Select
10 Committee on Ethics of the Senate for investigation
11 and the imposition of sanctions in accordance with
12 the rules of the Senate.

13 (2) STAFF SANCTIONS.—Any member of the
14 staff of the special committee who violates the secu-
15 rity procedures of the special committee shall imme-
16 diately be subject to removal from office or employ-
17 ment with the special committee or such other sanc-
18 tion as may be provided in any rule issued by the
19 special committee consistent with section 2(c).

20 (d) STAFF DEFINED.—For purposes of this section,
21 the term “staff of the special committee” includes—

22 (1) all employees of the special committee;

23 (2) all staff designated by the members of the
24 special committee to work on special committee busi-
25 ness;

1 (3) all Senate staff assigned to special commit-
2 tee business pursuant to section 5(b)(13);

3 (4) all officers and employees of the Office of
4 Senate Legal Counsel who are requested to work on
5 special committee business; and

6 (5) all detailees and consultants to the special
7 committee.

8 **SEC. 7. RELATION TO OTHER INVESTIGATIONS.**

9 (a) **PURPOSES.**—The purposes of this section are—

10 (1) to expedite the thorough conduct of the in-
11 vestigation, study, and hearings authorized by this
12 resolution;

13 (2) to promote efficiency among all the various
14 investigations underway in all branches of the
15 United States Government; and

16 (3) to engender a high degree of confidence on
17 the part of the public regarding the conduct of such
18 investigation, study, and hearings.

19 (b) **SPECIAL COMMITTEE ACTIONS.**—To carry out
20 the purposes stated in subsection (a), the special commit-
21 tee is encouraged—

22 (1) to obtain relevant information concerning
23 the status of the investigation of the independent
24 counsel, to assist in establishing a hearing schedule
25 for the special committee; and

1 (2) to coordinate, to the extent practicable, the
2 activities of the special committee with the investiga-
3 tion of the independent counsel.

4 **SEC. 8. SALARIES AND EXPENSES.**

5 A sum equal to not more than \$950,000 for the pe-
6 riod beginning on the date of adoption of this resolution
7 and ending on February 29, 1996, shall be made available
8 from the contingent fund of the Senate out of the Account
9 for Expenses for Inquiries and Investigations for payment
10 of salaries and other expenses of the special committee
11 under this resolution, which shall include not more than
12 \$750,000 for the procurement of the services of individual
13 consultants or organizations thereof, in accordance with
14 section 5(b)(11). Payment of expenses shall be disbursed
15 upon vouchers approved by the chairman, except that
16 vouchers shall not be required for the disbursement of sal-
17 aries paid at an annual rate.

18 **SEC. 9. REPORTS; TERMINATION.**

19 (a) **COMPLETION OF DUTIES.—**

20 (1) **IN GENERAL.—**The special committee shall
21 make every reasonable effort to complete, not later
22 than February 1, 1996, the investigation, study, and
23 hearings authorized by section 1.

24 (2) **EVALUATION OF PROGRESS.—**The special
25 committee shall evaluate the progress and status of

the investigation, study, and hearings authorized by section 1 and, not later than January 15, 1996, make recommendations with respect to the authorization of additional funds for a period following February 29, 1996. If the special committee requests the authorization of additional funds for a period following February 29, 1996, the Majority Leader and the Democratic Leader shall meet and determine the appropriate timetable and procedures for the Senate to vote on any such request.

(b) FINAL REPORT.—

(1) SUBMISSION.—The special committee shall promptly submit a final public report to the Senate of the results of the investigation, study, and hearings conducted by the special committee pursuant to this resolution, together with its findings and any recommendations.

(2) CONFIDENTIAL INFORMATION.—The final report of the special committee may be accompanied by such confidential annexes as are necessary to protect confidential information.

(3) CONCLUSION OF BUSINESS.—After submission of its final report, the special committee shall promptly conclude its business and close out its affairs.

1 (c) RECORDS.—Upon the conclusion of the special
2 committee's business and the closing out of its affairs, all
3 records, files, documents, and other materials in the pos-
4 session, custody, or control of the special committee shall
5 remain under the control of the Committee on Banking,
6 Housing, and Urban Affairs.

7 **SEC. 10. COMMITTEE JURISDICTION AND RULE XXV.**

8 The jurisdiction of the special committee is granted
9 pursuant to this resolution, notwithstanding the provisions
10 of paragraph 1 of rule XXV of the Standing Rules of the
11 Senate relating to the jurisdiction of the standing commit-
12 tees of the Senate.

○

20/93	08:03	561	WW	2ND	FL	RM.208	CASTLE	SECURE	ALARM
	08:03	561	WW	2ND	FL	RM.208	CONTROL CENTER 1	ACCESS	SET
	20:04	561	WW	2ND	FL	RM.208	CASTLETON	ACCESS	ALARM
	20:04	561	WW	2ND	FL	RM.208	CASTLETON	SECURE	ALARM
	21:14	561	WW	2ND	FL	RM.208	CONTROL CENTER 1	SECURE	RESET
	22:42	561	WW	2ND	FL	RM.208	O'NEILL	SECURE	ALARM
	22:42	561	WW	2ND	FL	RM.208	CONTROL CENTER 1	ACCESS	SET
	23:41	561	WW	2ND	FL	RM.208	O'NEILL	ACCESS	ALARM
	23:41	561	WW	2ND	FL	RM.208	O'NEILL	SECURE	ALARM
	23:42	561	WW	2ND	FL	RM.208	CONTROL CENTER 1	SECURE	RESET
2. JJ	07:01	561	WW	2ND	FL	RM.208	PONN	SECURE	ALARM
	07:01	561	WW	2ND	FL	RM.208	CONTROL CENTER 1	ACCESS	SET
	11:20	561	WW	2ND	FL	RM.208	CONTROL CENTER	TEST	SECURE
	11:20	561	WW	2ND	FL	RM.208	CONTROL CENTER	ACCESS	RESET
	11:20	561	WW	2ND	FL	RM.208	CONTROL CENTER	TEST	ACCESS
	20:17	561	WW	2ND	FL	RM.208	CONTROL CENTER 1	TAMPER	ALARM

22-26/93 NO ALARM ACTIVITY



Z 000598

ALPHONSE M. D'AMATO NEW YORK, CHAIRMAN

PHIL GRAMM, TEXAS
 RICHARD C. SHUELEY ALABAMA
 CHRISTOPHER S. BOND MISSOURI
 CONNIE MACC, FLORIDA
 JAMES FARCLOTH NORTH CAROLINA
 ROBERT F. BENNETT IOWA
 ROD GRAMM MINNESOTA
 BILL RIST TENNESSEE

PAUL S. SARBANES MARYLAND
 CHRISTOPHER J. Dodd CONNECTICUT
 JOHN F. FERRY MASSACHUSETTS
 RICHARD M. BRYAN NEVADA
 BARBARA BOXER CALIFORNIA
 CAROL MCSELEY BRAUN ILLINOIS
 PATTY MURRAY WASHINGTON

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
 URBAN AFFAIRS

WASHINGTON, DC 20510-6075

HOWARD A. MENELL STAFF DIRECTOR
 ROBERT J. GUFFA, JR. CHIEF COUNSEL
 PHILIP E. BECHTEL DEPUTY STAFF DIRECTOR
 STEVEN B. HARRIS DEMOCRATIC STAFF DIRECTOR
 AND CHIEF COUNSEL

July 11, 1995

BY FACSIMILE AND FIRST-CLASS MAIL

Kenneth W. Starr, Esquire
 Office of the Independent Counsel
 Two Financial Centre
 10825 Financial Centre Parkway, Suite 134
 Little Rock, AR 72211

Dear Judge Starr:

We are writing on behalf of the Chairman and Ranking Member of the Special Committee to Investigate Whitewater Development Corporation and Related Matters to request that you provide the information described below to the Special Committee. All of the information we are requesting is important to the Special Committee's hearings on the handling of documents in Vincent Foster's office following his death. These hearings are scheduled to begin on July 18, 1995, so we ask that you address our requests at your earliest opportunity.

There is a substantial conflict in deposition testimony that Margaret Williams and Henry O'Neill have provided to the Special Committee regarding whether or not Ms. Williams removed documents or other materials from the White House Counsel Office suite on the night of July 20, 1993. We understand that both witnesses have been interviewed by the FBI regarding the handling of documents in Mr. Foster's office in connection with investigations conducted by Mr. Fiske and by you. Indeed, we understand that on five or more occasions in 1994 and 1995 FBI agents working for the Office of the Independent Counsel interviewed Mr. O'Neill regarding his observations on the night of July 20, 1993.

We anticipate that Ms. Williams and Officer O'Neill both will be witnesses at the Special Committee's hearings this month and that the Special Committee will need all available information to consider the conflicts in their testimony. We thus request that you provide the Special Committee with copies of all FD-302 reports and FBI interview notes from all relevant FBI interviews of Ms. Williams and Officer O'Neill.

Kenneth W. Starr, Esquire
July 11, 1995
Page 2

We also understand that one or more persons working under the auspices of the Office of the Independent Counsel has administered a polygraph examination to Margaret Williams regarding matters relevant to the Special Committee's current inquiry. According to press reports, the polygraph examination indicated that Ms. Williams was not being deceptive when she stated that she did not remove documents or other materials from Mr. Foster's office on the night of July 20, 1993.

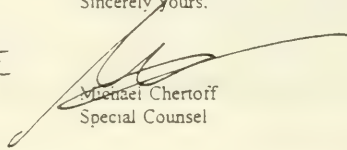
We recognize that you may not wish to provide the report of the polygraph examiner to the Special Committee, however, we request that you provide us with the questions asked and the answers given together with the expert's conclusion regarding truthfulness as to each.

Thank you very much for your prompt attention to these requests.

Sincerely yours,



Richard Ben-Veniste
Democratic Special Counsel



Michael Chertoff
Special Counsel

ALFONSE D'AMATO NEW YORK, CHAIRMAN
 PHIL GRAMM TEXAS
 RICHARD C. SHELBY ALABAMA
 CHRISTOPHER S. BOND MISSOURI
 CONNIE MACE FLORIDA
 JACOB FAIRCLOTH NORTH CAROLINA
 ROBERT F. BENNETT IAH
 MOD GRAMS MINNESOTA
 BILL LIRIST TENNESSEE

PAUL S. SARBANES MARYLAND
 CHRISTOPHER J. DODD CONNECTICUT
 JOHN F. KERRY MASSACHUSETTS
 RICHARD H. BRYAN NEVADA
 BARBARA BOEER CALIFORNIA
 CAROL MCNEELY BRAUN ILLINOIS
 PATTY MURRAY WASHINGTON

HOWARD A. MENELL STAFF DIRECTOR
 ROBERT J. GUFFRA, A. CHIEF COUNSEL
 PHILIP E. BECHTEL DEPUTY STAFF DIRECTOR
 STEVEN B. HARRIS DEMOCRATIC STAFF DIRECTOR
 AND CHIEF COUNSEL

United States Senate
 COMMITTEE ON BANKING, HOUSING, AND
 URBAN AFFAIRS
 WASHINGTON, DC 20510-6075

July 18, 1995

BY FACSIMILE AND FIRST-CLASS MAIL

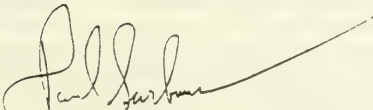
Kenneth W. Starr, Esquire
 Office of the Independent Counsel
 Two Financial Centre
 10825 Financial Centre Parkway, Suite 134
 Little Rock, Arkansas 72211

Dear Judge Starr:

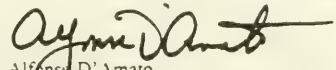
On behalf of all of the members of the Special Committee to Investigate Whitewater Development Corporation and Related Matters, we write to reiterate the requests made by our Special Counsel by letter of July 11, 1995. A copy of that letter is enclosed for your convenience.

As you may know, the Special Committee's hearings are now ongoing, and both Officer O'Neill and Ms. Williams are scheduled to testify within the next several days. We ask that you provide the requested materials at your earliest convenience.

Thank you very much.


 Paul S. Sarbanes
 Ranking Member

Sincerely yours,


 Alfonse D'Amato
 Chairman

Enclosure

**Office of the Independent Counsel**

1001 Pennsylvania Avenue, N.W.
Suite 490-North
Washington, D.C. 20004
202) 514-8688
Fax 202) 514-8802

July 19, 1995

The Honorable Alfonse M. D'Amato
The Honorable Paul S. Sarbanes
United States Senate
Committee on Banking, Housing and Urban Affairs
Washington, DC 20510

Dear Chairman D'Amato and Senator Sarbanes:

We have received your letter of July 18, which incorporates by reference the letter of July 11 sent to this Office by Mr. Chertoff and Mr. Ben-Veniste on behalf of the Committee. We have given your request considerable thought in view of the importance of our respective obligations.

In connection with the Committee's investigation into the handling of documents of former Deputy Counsel to the President Vincent W. Foster, Jr., the Committee has requested that this Office provide the Committee with reports of interviews of Henry O'Neill and Margaret Williams that were conducted by this Office and by Mr. Fiske's Office. In addition, the Committee has requested a copy of a particular polygraph report, or at least of questions asked during a particular polygraph examination. Finally, the Committee has requested permission to ask an individual employed by the FBI Laboratory questions about the work he has performed for the Independent Counsel.

We respectfully decline these requests. As we have informed the Committee on this and previous occasions, we will not disclose to the Congress any investigative work product from this active and ongoing investigation. As you know, we must abide by the strictures of grand jury secrecy contained in Federal Rule of Criminal Procedure 6(e). In addition, our position that we will not disclose to the Congress any investigative work product from an open investigation represents sound policy that is deeply rooted in the history and tradition of this Nation. See generally Memorandum for Oliver B. Revell Re: Congressional Requests for Information from Inspectors General Concerning Open Criminal Investigations, Op. Off. Legal Counsel, at 5 (March 24, 1989) ("the policy and practice of the executive branch throughout our Nation's history has been to decline, except in extraordinary circumstances, to provide committees of Congress with access to, or copies of, open law enforcement files. No President, to our knowledge, has departed from this position affirming the confidentiality and privileged nature of open law enforcement files"). We will adhere to this deeply rooted tradition, and therefore we are constrained, with respect, to decline each of the above requests.

We note, moreover, that our policy on these issues is not based on whether the requested information is exculpatory or incriminating, but rather is made in accordance with long-standing Department of Justice policy to protect the internal work of this Office with respect to an active and ongoing investigation and to protect the privacy of individuals.

Separately, through Mr. Chertoff and Mr. Ben-Veniste, the Committee had also requested the use of Mr. Foster's briefcase. As an accommodation to the Committee's investigative needs, we provided the briefcase to the Committee. Such pre-existing material, which was neither created nor modified by this Office or Mr. Fiske's office, is in our view readily distinguished from investigative work product. Moreover, in circumstances where such material cannot be obtained from any other source and where disclosure of it would not hinder or impede our ongoing investigation, we believe it appropriate to disclose such material to the Committee upon its joint request.

In sum, the question whether and under what conditions a law enforcement agency such as this Office can and should provide information to Congress relating to an open criminal investigation entails a delicate balancing of numerous competing concerns. With respect to the Foster documents investigation, we have balanced the competing concerns and formulated the above policy. In so doing, we have been advised by Ethics Counsel Samuel Dash. We have adhered to this policy thus far, and we intend to continue to do so. We do not believe, moreover, that there has been any inconsistency in our responses to the Committee's joint requests.

Thank you for your cooperation. Please do not hesitate to contact me if you have any questions.

Respectfully yours,

Kenneth W. Starr /ws

Kenneth W. Starr
Independent Counsel



Office of the Independent Counsel

1001 Pennsylvania Avenue, N.W.
Suite 490-North
Washington, D.C. 20004
(202) 514-8688
Fax (202) 514-8802

August 3, 1995

The Honorable Alfonse M. D'Amato
The Honorable Paul S. Sarbanes
United States Senate
Committee on Banking, Housing and Urban Affairs
Washington, DC 20510

Dear Mr. Chairman and Senator Sarbanes:

We have received your letter of July 31, which renews the Special Committee's earlier requests that this Office provide the Special Committee copies of all FD-302 reports and notes from all interviews of Margaret Williams and Henry O'Neill conducted by this Office and Mr. Fiske's Office.

We deeply appreciate the importance of Congress's oversight authority and the constitutional underpinnings of that power; to that end, we have attempted to accommodate the Committee in executing its oversight duties. We likewise recognize the Special Committee's particular interest in obtaining any information that might shed light on whether the Senate testimony of Officer O'Neill and Ms. Williams is consistent with their prior statements to law enforcement officials. Nevertheless, after careful reflection, we are constrained to adhere to our firmly-held position that we cannot in conscience disclose to Congress any investigative work product from our active and ongoing investigations. Therefore, we again respectfully decline the Committee's request.

As we stated in our letter to you of July 19, our position reflects a time-honored policy first expressed by President Washington and subsequently reaffirmed by or on behalf of Presidents Jefferson, Jackson, Lincoln, Theodore Roosevelt, Franklin Roosevelt, and Eisenhower, among others. See "History of Refusals by Executive Branch Officials to Provide Information Demanded by Congress" (Part I), 6 Op. O.L.C. 751 (1982). The reason for this policy is as simple as it is fundamental: the Executive Branch is obligated to protect its Article II responsibility to prosecute the laws fully and fairly. If Congress is apprised of details of an investigation while that investigation is ongoing, there is a distinct danger that congressional pressures will influence, or will be perceived to influence, the course of that investigation. Accordingly, the

The Honorable Alfonse M. D'Amato
 The Honorable Paul S. Sarbanes
 August 3, 1995
 Page 2

Executive Branch has, as a matter of course, declined to provide Congress with access to, or copies of, open law enforcement files. See generally, Memorandum for Oliver B. Revell, Re: Congressional Requests for Information from Inspectors General Concerning Open Criminal Investigations, Op. O.L.C., at 5 (March 24, 1989).

Attorney General Robert H. Jackson addressed this very issue over 50 years ago. Recognizing the competing interests of both Congress and the Executive Branch where the dissemination of investigative materials was at stake, then-Attorney General Jackson concluded:

It is the position of [the] Department [of Justice], restated now with the approval of and at the direction of the President, that all investigative reports are confidential documents of the executive department of the Government, to aid in the duty laid upon the President by the Constitution to "take care that the laws be faithfully executed," and that congressional or public access to them would not be in the public interest.

Disclosure of the reports could not do otherwise than seriously prejudice law enforcement. Counsel for a defendant or prospective defendant, could have no greater help than to know how much or how little information the Government has, and what witnesses or sources of information it can rely upon. This is exactly what these reports are intended to contain.

40 Op. Att'y Gen. 45, 46 (1941). In short, the Executive Branch "cannot effectively investigate if Congress is, in a sense, a partner in the investigation." Memorandum for Edward L. Morgan, Deputy Counsel to the President, from Thomas E. Kauper, Deputy Assistant Attorney, Office of Legal Counsel (Dec. 19, 1969).

The concerns articulated by Justice Jackson are as valid now as they were at the dawn of World War II. Moreover, the disclosure of investigative materials presents other perils to law enforcement that are similarly compelling. Consider, for example, the following: sensitive law enforcement techniques, methods and strategies may be revealed; witnesses may be "chilled" from speaking with law enforcement officers for fear of embarrassment or personal safety; and law enforcement officers themselves may be reluctant to express candidly their views and recommendations on controversial and sensitive matters if those views could be exposed to public scrutiny by Congress upon request. See generally, Memorandum for the Deputy Attorney

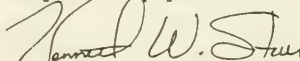
The Honorable Alfonse M. D'Amato
 The Honorable Paul S. Sarbanes
 August 3, 1995
 Page 3

General from Robert B. Shanks, Deputy Assistant Attorney General, Office of Legal Counsel, Re: Congressional Subpoenas of Department of Justice Investigative Files 14-20 (Oct. 17, 1984); United States v. Nixon, 418 U.S. 683, at 705 (1974) ("[H]uman experience teaches that those who expect public dissemination of their remarks may well temper candor with a concern for appearances and for their own interest to the detriment of the decision-making process.").

As we have previously stated, our policy against disclosing investigative material does not hinge on whether the requested material is exculpatory or incriminating. Nor do we believe that this policy can or should be reevaluated based on the course of congressional proceedings. Indeed, with respect to the Special Committee's request, we would be setting a dangerous precedent were we to release FD-302 reports or any other prior statements made to law enforcement officials whenever there is speculation that such statements contain inconsistencies with testimony taken before the Senate.

We hasten to recognize that there have been instances deemed to constitute extraordinary circumstances in which federal law enforcement disclosed to Congress certain investigative information. See, e.g., Letter to John D. Dingell, Chairman, Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, from William French Smith, Attorney General, 6 Op. O.L.C. 31, at 103 (1982) (regarding request for open law enforcement investigative files of the Environmental Protection Agency). However, after reviewing the present circumstances with the aid and consultation of our Ethics Counsel Professor Samuel Dash, we believe that relevant authority and tradition guides us to one conclusion -- this Office's interest and obligation to protect the confidentiality of its open investigations is paramount in this instance. We must, accordingly, respectfully decline the Special Committee's request.

Respectfully yours,



Kenneth W. Starr
 Independent Counsel

~~Person connected by P. C. H.~~

a confidential source paid to Rose from

2/24 To w/ Webb Webb

① Preferred stock offering 4/85

② Broker dealer ~~Summer 1985~~

Massey had relationship w/ Leithorn + AC
had relationship w/ Mac D. Dick will say he
had it w/ Leithorn + had alot to do w/ getting
the claim in. She did all the bell.ing.

~~Ac. to Rose~~ AC had numerous conf w/ Leithorn, Massey +
McDargall on both transactions. She reviewed
some doc. She had one to in 4/85
at beginning of the deal w/ Bev.
Neither deal went through.

~~Preferred stock~~ Preferred stock was opposed by staff but
approved by Bev under certain conditions
which they were met.

~~Preferred stock ?!~~

~~But for Massey it would not have been there.~~

Rose from prohibited from seeing
Massey's report. Rose relied on
employee audit report.

RTC paid Rose cash from 240,000 in 1991

But AC was telling partners +
attended conference. He knew a
major call — has is AC's — has.

1985 dated 1/2 to Ozark L.A. Service
with no evidence stamp. Wade's
recollection still had signif # of lots
Wade was given authority to sell them
a ~~for~~ Wade assumed liability on
the loan balance. Partial release
or mortgage when lots are sold



U.S. Department of Justice

Federal Bureau of Investigation

Washington, D.C. 20535

Robert J. Giuffra, Jr.
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C.

Dear Mr. Giuffra:

The Office of the Independent Counsel (OIC) has communicated to the FBI the request of the Special Committee to Investigate Whitewater Development Corporation and Related Matters that the FBI provide the Committee with certain information regarding latent print analysis conducted on a set of Rose Law Firm records submitted to the FBI by the OIC. We have received copies of your May 23, 1996 letter to the OIC and a clarifying letter of the same date from the Deputy Independent Counsel to you. We understand the request to relate to records submitted to the FBI that bear Bates Stamp numbers DEK 014936 through DEK 015049.

Based upon the above-referenced communications, we are responding to the four questions set out in your letter of May 23, 1996. The responses, which correspond by paragraph number to your questions, are as follows:

1. Yes. Latent fingerprints of Hillary Rodham Clinton and Vincent W. Foster, Jr. have been found on the Rose Law Firm records.
2. The Bates Stamp numbers of the documents with the latent prints of Hillary Rodham Clinton and Vincent W. Foster, Jr., and the location of the prints on each page, are as follows:

Hillary Rodham Clinton:

One fingerprint located on the front lower right corner at the edge of page DEK 014945

One fingerprint located on the front bottom near the left edge of page DEK 014950

Robert J. Giuffra, Jr.

Vincent W. Foster, Jr.:

One fingerprint on the front lower right corner of page DEK 014969

One fingerprint on the front lower right side (left of entry line #62) of page DEK 014990

One fingerprint on the front lower right side (left of entry line #66) of page DEK 014994

One fingerprint on the front upper right corner of page DEK 015030

3. Yes. Latent prints of the following individuals have been found on the Rose Law Firm records: Mildred C. Alston, Sandra Hatch, Carolyn Huber and Marc Rolfe. The Bates Stamp numbers of the documents with the latent prints of Mildred C. Alston, Sandra Hatch, Carolyn Huber and Marc Rolfe, and the location of the prints on each page, are as follows:

Mildred C. Alston:

One palm print located on the front top edge of the right side of page DEK 014936

Sandra Hatch:

Three fingerprints on page DEK 015025, as follows:

- Two fingerprints on the back lower right bottom of page
- One fingerprint on the back middle right edge of page

Carolyn Huber:

One fingerprint on the back upper right edge (entry line #12) of page DEK 014953

One fingerprint on the back upper right corner at the right edge of page DEK 014978

One fingerprint on the front right center edge of page DEK 014981

One fingerprint on the back right center edge of page DEK 014987

Robert J. Giuffra, Jr.

One fingerprint on the front lower left side at the edge of page DEK 014992

One fingerprint on the back upper right side of page DEK 014998

Marc Rolfe:

Three fingerprints and one palm print on page DEK 014936, as follows:

- Fingerprint on the front left top of page (above the word Guaranty)
- Fingerprint on the front bottom right center edge of page
- Fingerprint on the front left side edge of page (adjacent entry line #18)
- Palm print on the front left side (right of entry #'s 13 through 33)

One fingerprint on the back upper right corner of page DEK 014949

One fingerprint on the back upper right corner of page DEK 014976

One fingerprint on the back upper center along the crease of page DEK 014985

One fingerprint on the back right upper center (entry line #21) of page DEK 015010

Ten Fingerprints on page DEK 015011, as follows:

- Two fingerprints on the front upper left corner of page
- One fingerprint on the front upper center of page
- Two fingerprints on the front left center/side of page
- Two fingerprints on the front lower left side of page

Robert J. Giuffra, Jr.

- One fingerprint on the back upper left corner of page
- Two fingerprints on the back upper right corner of page

Seven fingerprints on page DEK 015012, as follows:

- One fingerprint on the back upper right corner of page
- Two fingerprints on the back upper right top of page
- Four fingerprints on the back right middle edge of page

One fingerprint on the back right center edge of page DEK 015045

Eleven fingerprints on page DEK 015049, as follows:

- Six fingerprints on the back upper right center of page
- Three fingerprints on the back right middle edge of page
- Two fingerprints on the back lower left edge of page

4. No.

Sincerely yours,

John E. Collingwood
Inspector in Charge
Office of Public and
Congressional Affairs

Margaret R. Owens

By: Margaret R. Owens
Unit Chief

① - Richard Ben-Veniste
Minority Special Counsel

M E M O R A N D U M

TO: Clark Walton
 FROM: Jean Brennan *JB*
 DATE: December 11, 1991
 SUBJECT: Referral Schedule

The following schedule will reflect the revised priorities of the Arkansas investigations for which I am currently responsible:

7445 ✓	FFSL/Paragould	5	09/01/91	12/31/91
2109 ✓	Savers/Little Rock	1	01/01/92	01/31/92
7107 ✓	Capital/Little Rock	*	02/01/92	02/28/92
7370 ✓	First Fed/Little Rock	*	03/01/92	03/31/92
7247 ✓	First Am./Fayetteville	3	04/01/92	04/30/92
7207 ✓	First Fed/Fayetteville	*	05/01/92	05/31/92
6909 ✓	Home Fed/Mountain Home	*	06/01/92	06/30/92
7040 ✓	1st State/Mountain Home	*	07/01/92	07/31/92
7088 ✓	Landmark/Hot Springs	*	08/01/92	08/31/92
6910 ✓	First Fed/Malvern	*	09/01/92	09/30/92
7236 ✓	Madison/Little Rock	*	10/01/92	10/01/92
7246 ✓	Commonwealth/Osceola	*	11/01/92	11/30/92
7423 ✓	Texarkana Fed/Texarkana	*	12/01/92	12/31/92

Steve Irons, FBI, Little Rock, requested that Savers and Capital be reviewed during the first quarter of 1992, which would assist in their investigative efforts and possibly provide additional information regarding Del Chandler, who will probably be indicted this month. In addition, the investigation of Savers will show Louis G. Reese to be a player in several loans, and SA Irons suggested that the Eastern and Western districts could create a collaborative effort on the investigation of Reese, who is in several of the Arkansas institutions. Reese's attorney, Ross Nabatoff, has contacted the US Attorney for both Arkansas districts, wanting to include Arkansas in Reese's prior plea agreement; both USA's declined, and the Arkansas FBI has expressed an interest in pursuing Reese through First America, Savers, and any other institutions where there are indications of his involvement.

I have rescheduled the further investigation of First America/Ft. Smith for April, predominantly due to the fact that SA Mark Grisham, FBI, Fayetteville, has advised me that his efforts have been redirected, by his supervisor and the US Attorney, toward another Fayetteville bank failure which will be concluded by the end of March 1992. At that point, he will be prepared to refocus on the First America investigation involving Louis G. Reese and 3 other suspects.

R10492

Bouss

Clark Walton
Priority Status
December 11, 1991

I have attempted to schedule the investigations so that if there is more than one association in a specific city, the investigations will be conducted back to back, looking for evidence of common players. Other than that, I have prioritized based on joint investigative efforts with the FBI and information offered by the civil investigators as to how "dirty" any of their specific institutions appear to be.

Please let me know if you have any questions, or think we need to reshuffle any of the foregoing.

/ljb

- FBI

TRANSMIT VIA:

☐ Teletype
☐ Facsimile
☒ AIRTEL

PRECEDENCE:

☐ Immediate
☐ Priority
☐ Routine

CLASSIFICATION:

☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
☐ UNCLAS

Date 8/26/92

TO : DIRECTOR, FBI

FROM : SAC, LITTLE ROCK (29D-LR-32896) (SQ 3)

SUBJECT : FINANCIAL INSTITUTION FRAUD AND FAILURE MATTERS;
 FINANCIAL INSTITUTION REFORM, RECOVERY, AND
 ENFORCEMENT ACT OF 1989 (FIRREA) AND CRIME CONTROL
 ACT OF 1990 (CCA) RESOURCES

Reference airtel from Director dated 8/7/92 captioned
 as above.

1.

The Little Rock Division has under-utilized Financial Institution Failure (FIF) resources during the past fiscal year due to several reasons. Since 10/1/91, Little Rock has received one FIF referral from the Resolution Trust Corporation (RTC). RTC has control of a dozen failed Arkansas institutions for which referrals have not been received. No failures occurred during the first nine months of Fiscal Year (FY) 1992. As a result of budget cutbacks, the RTC office in Tulsa, Oklahoma, began to scale down its operations in late 1991 to early 1992, and the office was closed in early summer of 1992. RTC had previously projected making referrals on the dozen failed institutions over a two year period to end in 1994. At the request of Little Rock, RTC intended to address the institutions in the order chosen by the Bureau. The order requested from RTC was derived by projecting manpower availability in headquarters and resident agencies. The closing of the Tulsa RTC office, layoffs of some of its personnel and transfer of the remaining employees have all negatively affected timely receipt of new referrals and adversely influenced Little Rock's ability to fully utilize its dedicated FIF resources during the past nine months.

2 - Bureau
 ② Little Rock
 SDI/sdi
 (4)

29D-LR-32896-12
 Searched _____
 Serialized _____
 Indexed _____
 Filed _____

FBI-00001529

Approved: _____

JME-00000498

29D-LR-32896

Contact was made with RTC investigator JEAN LEWIS on 8/26/92 to determine the schedule for pending referrals. LEWIS advised she would be providing a referral on MADISON GUARANTY on or about 8/31/92. Although a previous investigation has been conducted and convictions of institution officials obtained, LEWIS advised the referral would contain previously unknown and unaddressed allegations of wrongdoing. Specifically, she advised her investigation had revealed what she described as nine "shell corporations" with accounts at MADISON GUARANTY. LEWIS advised there appeared to be check kiting activity between the accounts, and that a corporation known as WHITEWATER DEVELOPMENT was involved as a recipient of some of the funds. WHITEWATER DEVELOPMENT was owned by JAMES and SUSAN MC DOUGAL (50%) and BILL and ELLARY CLINTON (50%). JAMES MC DOUGAL was part owner of MADISON GUARANTY and was previously indicted on fraud charges but acquitted after jury trial. BILL CLINTON is Governor of Arkansas and the Democratic nominee for President. Other individuals alleged to be associated with the alleged "shell corporations" include current Arkansas Lieutenant Governor JIM GUY TUCKER, MAURICE SMITH, STEVE SMITH, and R. D. RANDOLPH. Upon receipt of the referral, evaluation of possible criminal activity and identification of subjects will be accomplished on an expeditious basis. If warranted, an investigation will be conducted and the FIF burn will increase.

In addition, LEWIS was asked when referrals on other institutions could be expected and advised a referral would be provided within several months on SAVERS FEDERAL SAVINGS, which is expected to contain numerous allegations of significant criminal activity. This will also increase the burn rate for FIF agents. The two referrals, if determined to be worthy of investigation by the United States Attorney, in large part should resolve the under-utilization of FIF resources in Little Rock. It appears reasonable to project that, since personnel movements within the RTC region covering Little Rock have abated somewhat, the referral process may show some signs of increased activity.

However, an Assistant United States Attorney from the Eastern District of Arkansas recently attended the Department of Justice FIF Supervisors' Conference in Chicago, Illinois. While there, the panel commented as to how the RTC is pursuing civil recoveries under Directors and Officers insurance policies or lawsuits and is less interested in making criminal referrals until their civil efforts are complete.

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Also, many of the failed Arkansas institutions have been closed for periods approaching five years. Per Bureau instructions to all offices as set forth in Director teletype to all offices dated 5/1/92, captioned Financial Institution Fraud and Failure Matters, Little Rock has not opened fraud cases on failed institutions absent an official referral. Due to the fact failures occurred years ago and records have been spread out as assets of the institutions were sold, there is no ability to develop source information to justify opening cases as set forth in the teletype. Liaison has already been effected with the regulatory agencies that audited the institutions, who advised they would have referred any questionable activity at the time of their audits. Little Rock is not in a position to influence the manpower assigned by RTC to author such referrals, nor the speed at which the work is conducted.

Two major failure cases have been closed since FY 1992 began. Two other cases, including one on the "Top 100" list prepared by the Department of Justice (DOJ), have been initiated since the beginning of FY 1992. Little Rock has been conscientious in its use of designated FIRREA and CCA agents to address FIF matters.

Little Rock has also experienced the benefit of a learning curve as agents have investigated FIF matters, resulting in more efficiency on the part of the agents. This has also been true of the prosecutors assigned to these matters. In addition, Little Rock has made increased use of Financial Assistants (FAs) to handle complex matters previously handled solely by agents. Little Rock also received some help from the RTC and the Office of Thrift Supervision (OTS) in investigations, which freed agent resources for use in other White Collar Crime (WCC) areas.

Because Little Rock is one of the smaller divisions, it has one WCC squad to handle all WCC violations. When significant FIF failure cases were more numerous, other programs suffered. When significant Government Fraud or Public Corruption cases appear and failure referrals are lacking, resources must be shifted to those other WCC areas, and agents not specifically transferred to address FIRREA/CCA matters were utilized in exactly that situation in the first half of FY 1992. The WCC squad has 11 agents to address all programs within its area. Little Rock has designated eight other agents to address WCC matters, including FIF. Those eight agents are in Resident Agencies that range in size from two to five agents. Little Rock has experienced five kidnappings in Resident Agency territory in FY 1992, as well

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as other emergency situations that required temporary reprogramming of manpower.

During the previous inspection, Little Rock's WCC effort was described as being focused on FIF to the exclusion of other WCC areas. Since that time, Little Rock has expended significant manpower in two corruption matters. In one, (194A-LR-3336) a most influential state representative was indicted for fraud and extortion. This matter involved use of a cooperating witness, electronic and physical surveillance, bribe payments, interviews, and significant federal grand jury preparation. The Department of Justice Public Integrity Section is currently prosecuting another matter which involves multiple subjects involved in voter fraud (56D-LR-32814). The four indicted subjects are due to stand trial in early September. Another WCC matter requiring significant resources

Little Rock also utilized two agents to participate in a Group II undercover operation in the area of pharmacy fraud, and has followed the direction of FBIHQ by increasing its emphasis on investigations of Health Care Fraud (HCF). Little Rock has expended a great deal of manpower in this area in the past fiscal year and is already achieving outstanding results. In 209A-LR-33408, the owner of the durable medical equipment company has agreed to plead guilty, testify against other subjects, and repay \$2 million. This was the only HCF matter under investigation at the beginning of FY 1992. At present, ten matters are under investigation and others are being developed. SAC firmly believes Health Care Fraud (HCF) is a primary growth area should FIRREA and CCA resources decline.

Notwithstanding the concerted and successful efforts to develop viable targets within other WCC subprograms, Little Rock will aggressively pursue with the RTC the prospect of future referrals regarding the 12 failed institutions for which no referrals have been received. Recognizing that fraud undoubtedly contributed to the demise of some or all of the institutions, Little Rock could pro-actively pursue cases on two of the larger institutions, SAVERS FEDERAL and FIRST FEDERAL, were it not for FBIHQ policy as to what constitutes justification for opening cases, which, considering the extraordinary circumstances in the FIF area, may be overly restrictive in that area. SAC, Little Rock, strongly recommends FBIHQ afford more flexibility to the Field in this

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JMF 00000501

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area, noting RTC has had severe staffing cutbacks in our area and appears to be concentrating on civil matters. Any investigation opened would be done only with the concurrence of the United States Attorney.

2.

FIRREA AGENTS

NAME	SQUAD	SUBSTITUTED AGENT	SQUAD
[REDACTED]	0-3	[REDACTED]	3
	3		3

CCA AGENT

NAME	0-3	RESIDENT AGENCY
[REDACTED]		Payetteville

3.

The total number of pending investigations involving failed institutions is six, with active investigation ongoing in four. Of the remaining two, trials are pending and are expected to be lengthy.

5*

FBI-00001533

JME-00000502

7/25

And asked her to go after sources. 1st federal agent.

1. Webster telecal, net'd, asked who TGT rather were
 Newspaper article - He later said who ATC wanted him to call records
 Tarn L called! Had a bit better we already had case on Motion's closed after trial
 Tarn L out - GA, GA had someone re WDS in. you, GA told me, GA returned schooling
 I called clerk & asked if someone they were looking at MG, yes, we have big names
 involved - yes - it's look like there would be a referral - yes - we have
 must be something you think - I'm on back foot

ASAC, SAC, F100

GA came to me - He told her.

He called - just went away. She has a deadline of 8/31, gave up a good
 opportunity in D.C. just to do referral, maybe she or it could alter
 history - very dramatic.

ASAC

Several calls around 8/31 re getting it, finally deal.

KW & GA to office to complain about GA's - had heard from WSA's

Denton

SAC, copy to SAC

Barker

Phone calls from Lewis wanting to know

He came to see Small, Harris, WC, GA - fully - 1st agent asked me re meeting - she talked
 to GA, afternoon - she would offer me to ask again. Said he have waiting for, every
 other day asking what we were doing, what? wanted to know. The referral went
 all the way to the line before approval, D.C. had to see. Told her for work 454
 we would not tell her. She volunteered to answer questions, etc.

LAC, 2, 3, 4 USA & MTC 7/23

OIC 001124



Resolution Trust Corporation
 Kansas City Consolidated Office
 4900 Main Street, P.O. Box 419570
 Kansas City, Missouri 64141 (816) 531-2212 (800) 365-3342

September 1, 1992

RECEIVED

SEP 2 1992

U.S. ATTORNEY'S OFFICE
 LITTLE ROCK, ARKANSAS

The Honorable Charles A. Banks
 United States Attorney
 Eastern District of Arkansas
 U.S. Post Office and Courts Building
 600 W. Capitol, Room 331
 P.O. Box 1229
 Little Rock, Arkansas 72203

Re: #7236 Madison Guaranty Savings & Loan
 Little Rock, Arkansas - In Receivership (11/29/90)
CRIMINAL REFERRAL NUMBER C0004

Dear Sir:

Certain matters have come to our attention which may constitute criminal offenses under Federal law. Enclosed is a report of an Apparent Criminal Irregularity.

Information in this referral may have been derived from financial records of customers of federally insured financial institutions. I hereby certify that (A) there is reason to believe that these records may be relevant to a violation of Federal criminal law, and (B) the records were obtained in the exercise of the RTC's supervisory or regulatory functions.

Due to the extensive nature of the exhibits relating to this referral, they are being sent to your office under separate cover.

Please direct any inquiries to the Investigator identified on the referral form, or to Lee O. Ansen, Department Head/Criminal Investigations, Kansas City Consolidated Office.

Sincerely,

L. Richard Iorio

L. Richard Iorio
 Field Investigations Officer

Enclosure

CRIMINAL REFERRAL FORM

CRIMINAL REFERRAL # C0004

1. NAME AND LOCATION OF FINANCIAL INSTITUTION

Name/ #: MADISON GUARANTY SAVINGS & LOAN
Location: 16TH AND MAIN, P.O. BOX 1583
(Street/City/State/Zip) LITTLE ROCK, ARIZONA 72206

CERTIFICATE NUMBER:

If activity occurred at branch office(s), please identify:

2. ASSET SIZE OF FINANCIAL INSTITUTION: \$118,855,000

3. APPROXIMATE DATE AND DOLLAR AMOUNT (PRIOR TO ANY ALLOWANCE FOR RESTITUTION OR RECOVERY) OF SUSPECTED VIOLATION:

Date: (Month/Day/Year) Time frame between 12/84 and 5/85
Amount: Estimated at \$350,000 to \$1,000,000

4. SUMMARY CHARACTERIZATION OF THE SUSPECTED VIOLATION. Check appropriate box(es)

	SP. Garden, 1962-1963		SP. Garden, 1962-1963	X	SP. Garden, 1962-1963	X	SP. Garden, 1962-1963
	SP. Garden, 1962-1963	X	SP. Garden, 1962-1963		SP. Garden, 1962-1963	X	SP. Garden, 1962-1963
X	SP. Garden, 1962-1963		SP. Garden, 1962-1963		SP. Garden, 1962-1963		SP. Garden, 1962-1963

Applicable Section(s) of the U.S. Code:

[illegible]

MADISON GUARANTY SAVINGS & LOAN
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5. THIS MATTER IS BEING REFERRED TO:

FBI, Little Rock, Arkansas
U.S. Attorney, Eastern District, Little Rock, Arkansas

6. PERSON(S) SUSPECTED OF CRIMINAL VIOLATION: Complete subparagraphs (a) through (e) on each individual suspected of criminal activity. (If more than one, use continuation sheet). Include primary suspects only. Individuals who may have knowledge of the suspect criminal activity, but who are not themselves suspected of being involved, should be listed as witnesses under Item 10. Provide any additional details known with respect to prior referrals or affiliations.

a. NAME: (First/Mi/Last) McDougal, James B.

ADDRESS: (Street/City/State/Zip) Current Address Unknown

DATE OF BIRTH: (Month/Day/Year) Unknown

SOCIAL SECURITY NO: Unknown

b. Relationship to the financial institution: (Check all applicable blocks)

<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

c. Is person still affiliated with the financial institution?
☐ Yes ☒ No

If No, terminated ____, resigned X. Date (Month/Day/Year):

Describe circumstances: (If necessary, use continuation sheet)

McDougal resigned from the Board of Directors in December 1985; however he remained active in the Association's day to day business. He was removed from the Association when it was placed in Conservatorship by the RTC in 2/89.

d. Prior or related referrals:
☒ Yes ☐ No

If Yes, please identify.

McDougal was indicted, tried and acquitted in 1989 on charges stemming from his activities at Madison Guaranty Savings & Loan.

e. Is person affiliated with any other financial institution?
☒ Yes ☐ No

or business enterprise:
☒ Yes ☐ No

If yes to either or both, please identify.

McDougal was a shareholder and Board Member of the Bank of Kingston, which was at one point to be merged with Madison Guaranty; thrift records indicate that the merger was called off due to legal ramifications.

McDougal is a principal in the following business enterprises:

Madison Marketing	Designers Construction
McDougal & Associates	Madison Financial Corporation
Flowerwood Farms, Inc.	Whitewater Development Corp., Inc.
Peabrook Manor, Inc.	Rolling Manor, Inc.

Smith-Tucker-McDougal Smith-McDougal

6. PERSON(S) SUSPECTED OF CRIMINAL VIOLATION: Complete subparagraphs (a) through (e) on each individual suspected of criminal activity. (If more than one, use continuation sheet). Include primary suspects only. Individuals who may have knowledge of the suspect criminal activity, but who are not themselves suspected of being involved, should be listed as witnesses under Item 10. Provide any additional details known with respect to prior referrals or affiliations.

a. NAME: (First/Middle/Last) McDougal, Susan H.
ADDRESS: (Street/City/State/Zip) Unknown
DATE OF BIRTH: (Month/Day/Year) Unknown
SOCIAL SECURITY NO: Unknown

- b. Relationship to the financial institution: (Check all applicable blocks)

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- c. Is person still affiliated with the financial institution:
Yes ☒ No

If No, terminated _____, resigned ☒. Date (Month/Day/Year):

Describe circumstances: (If necessary, use continuation sheet)

Susan McDougal resigned from the Board of Directors in December 1985, but remained active in the day to day activities of the association's subsidiary operations.

- d. Prior or related referrals:
Yes ☒ No

If Yes, please identify.

- e. Is person affiliated with any other financial institution;
Yes ☐ No ☐ Unknown at this time

or business enterprises:
☒ Yes ☐ No

If yes to either or both, please identify.

Susan McDougal is a principal in the following business enterprises:

Madison Marketing	Designers Construction
McDougal & Associates	Madison Financial Corporation
Flowerwood Farms, Inc.	Whitewater Development Corp., Inc.
Pembroke Manor, Inc.	Rolling Manor, Inc.
Great Southern Land Co.	Tucker-Smith-McDougal
Smith-Tucker-McDougal	Smith-McDougal

001107

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6. PERSON(S) SUSPECTED OF CRIMINAL VIOLATION: Complete subparagraphs (a) through (e) on each individual suspected of criminal activity. (If more than one, use continuation sheet). Include primary suspects only. Individuals who may have knowledge of the suspect criminal activity, but who are not themselves suspected of being involved, should be listed as witnesses under Item 10. Provide any additional details known with respect to prior referrals or affiliations.

a. NAME: (First/Mi/Last) Anspaugh, Lisa
ADDRESS: (Street/City/State/Zip) Unknown
DATE OF BIRTH: (Month/Day/Year) Unknown
SOCIAL SECURITY NO: Unknown

- b. Relationship to the financial institution: (Check all applicable blocks)

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- c. Is person still affiliated with the financial institution:
☐ Yes ☒ No
If No, terminated _____, resigned _____. Date (Month/Day/Year):
Describe circumstances: (If necessary, use continuation sheet)

- d. Prior or related referrals:
☐ Yes ☒ No

If Yes, please identify.

- e. Is person affiliated with any other financial institution:
☐ Yes ☐ No Unknown at this time
or business enterprise:
☒ Yes ☐ No

If yes to either or both, please identify.

Anspaugh was allegedly a partner with Susan McDougal in several companies, and assisted McDougal with her "bookkeeping" for the McDougal's various companies including:

Madison Marketing	Designers Construction
McDougal & Associates	Madison Financial Corporation
Flowerwood Farms, Inc.	Whitewater Development Corp., Inc.
Pembroke Manor, Inc.	Rolling Manor, Inc.
Great Southern Land Co.	Tucker-Smith-McDougal
Smith-Tucker-McDougal	Smith-McDougal

- 7a. EXPLANATION/DESCRIPTION OF SUSPECTED VIOLATION. Provide a brief narrative description of the activity giving rise to the referral, explaining what is unusual or irregular about the transaction. Details will be provided later in the form. The purpose of this paragraph is to provide a summary description of the overall transaction. (List applicable account numbers.)

Between February 1984 and July 1987, James B. McDougal, Susan B. McDougal, Lisa Anspaugh, Jim Coy Tucker, Stephen A. Smith, Bill Clinton, Hillary Rodham Clinton, and other individuals who are as yet unidentified, were principals in at least one, and possibly more, of the following companies and/or business interests, each of which maintained a checking account at Madison Guaranty Savings & Loan ("MGSL"):

Madison Marketing
McDougal & Associates
Flowerwood Farms, Inc.
Pembroke Manor, Inc.
Grat Southern Land Co.
Smith-Tucker-McDougal

Designers Construction
Madison Financial Corporation
Whitewater Development Corp., Inc.
Rolling Manor, Inc.
Tucker-Smith-McDougal
Smith-McDougal

MGSL checking account histories from September 1984 through May 1985 were reviewed and analyzed for each of these entities (hereafter referred to as the "the combined companies"). The patterns that evolved from this review go back to February 1984, possibly earlier, and occur as late as July 1987.

During this time frame, some or all of the principals of the aforementioned companies allegedly allowed, or participated in, numerous questionable cash flow and "loan" transactions between the combined companies, and other financial institutions. The transactions reviewed and discussed herein will allege excessive overdrafts resulting in unauthorized loans, check kiting, possible forgery (or at the very least, extensive use of unauthorized signatures), potential misappropriation of funds, possible illicit campaign contributions, diversion of loan proceeds, and potential bank fraud; each of these actions, compounded by the extended time frame during which they occurred, lends causation to the probability that some or all of the McDougal's business associates and partners, the collective principals of these combined companies, had knowledge of these activities. The extensive nature of these activities could allegedly constitute ongoing criminal and regulatory violations which lasted for a period of three or more years, and could have ultimately contributed to the failure of the Association.

Although some of these companies, such as Madison Marketing, Madison Financial Corporation, and Flowerwood Farms appeared to be viable and active entities, the others appeared to be little more than shell companies with limited assets, whose checking accounts went through sporadic flurries of activity, "money in/money out", then reverted back to minimal balances with very limited activity. The account histories indicate that the collective checking accounts for these entities incurred very limited, if any, monthly service charges, despite their below minimum balances, and limited overdraft charges regardless of the excessive number of overdrafts in several of the accounts.

An analysis of the aggregate checking accounts for these entities between December 1984 and May 1985 reflects a minimum of 95 check transactions occurring by and between the combined companies and/or outside financial institutions, totalling \$1,015,122. There were a minimum of 45 deposit transactions by and between the combined companies, affiliated persons and/or financial institutions which totalled \$1,079,142. The resulting minimum number of "money in/money out" transactions for these combined, predominantly shell, companies was \$2,098,264 over a six-month period of time. To produce all checks from each account, even for a six month period of time, would have been cost prohibitive as well as labor intensive; therefore, only randomly selected checks and deposits were produced from film for the 12/84 - 5/85 target time frame.

The combined companies "lent" one another in excess of \$190,000 during the time frame of December 1984 through May 1985. There were 31 checks written, designated as "loans" by and between the entities, that totalled \$192,886; however, there is no indication of any form of repayment between the entities. This premise lends support to the suspicion that the McDougal's were utilizing these shell companies as a personal "cash cow" from which to generate funds for their own use, and to the further benefit of some

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or all of their business partners, including loan payments to outside financial institutions on behalf of the various partnerships. The McDougals' allegedly further used these shell companies to filter funds from MGSL through Madison Financial Corporation and its subsidiaries for their own benefit.

From December 1984 through May 1985, the personal checking account of James and Susan McDougal (account # 424) was frequently overdrawn, with overdraft amounts of up to \$30,000, lasting for two and three weeks at a time. During this time frame, the combined companies wrote at least 10 checks to James or Susan McDougal, totalling \$53,170, calling the funds "loans". The minimum number of collective deposits from various sources shown going into the McDougal's account during the same time frame is in excess of \$690,000, with checks going out of the account totalling over \$622,000.

Examples of James McDougal's misuse of position are clearly indicated in the number of checks which were paid through the McDougal's joint checking account in the target time frame. The significant amounts, frequency and time span of the overdrafts are being alleged as unauthorized loans for the purposes of this referral. Substantiation of these activities is outlined in the following examples:

- On 1/28/85, check # 577 for \$13,181.07 was written from the McDougal's account to Worthen Bank for a loan payment. The signature on the check reads "James S. McDougal", but bears no resemblance to his actual signature. The day the check was written, there were insufficient funds in the account, at which juncture a \$14,000 "personal loan" was written from Flowerwood Farms (check # 179) to Jim McDougal. (Susan McDougal's signature on the Flowerwood Farms check had also been forged). Despite the \$14,000 loan, the check to Worthen Bank was force paid, overdrawing the McDougal's account by \$<4,116.97>, where the balance remained until a deposit of \$5,127.04 arrived from an unknown source.
- On 2/7/85, Susan McDougal sent check # 589 for \$3,154.28 to the IRS; the day the check was written the account was overdrawn by \$<3,282.00>, and when the check was force paid, the balance dipped to \$<8,777.06>. The initial overdraft of \$<3,282.00> was caused by the force payment of the previously mentioned check to Worthen Bank.
- On 4/4/85, Susan McDougal wrote check # 688 for \$3,000 to the Bill Clinton Campaign Fund; the check was force paid on 5/3/85 when the account was already overdrawn \$<7,897.73>, increasing the negative balance to \$<10,897.73>. The same day, Flowerwood Farms wrote a \$3,000 check to Madison Guaranty, which was apparently cashed; given the identical dollar amounts, the probability exists that these funds were also contributed to Clinton's campaign, which, if active solicitations for contributions were occurring, could have provided the impetus for his business associates to write checks totalling \$6,000 to his campaign fund, one of which put the McDougal's own account in a \$<10,000> negative balance.
- On 4/19/85, check # 899 for \$55,000 was written on the McDougal's account to Flowerwood Farms; this was done to cover Flowerwood's existing overdraft of \$<50,994.18> which occurred when an \$86,612.68 check to Madison Guaranty was force paid. The \$86,612.68 check (#196) was a loan payment on McDougal related loan #1591. The date that the check for \$55,000 was written, the McDougal's account balance was \$19,429, and was subsequently overdrawn by \$<28,077.82> when the check was force paid, documenting just one of many instances of check "kiting." The overdraft status on the McDougal's account was remedied by a \$29,209.30 check from Execucar, Inc. (allegedly the "car leasing department" of Madison Financial Corporation), which was noted as a "refund on black 280 SL Mercedes which had been purchased by the McDougal's on 4/18/85. A similar "refund" situation occurred with a \$37,149.30 Madison counter check, written to Jim McDougal for an "85 380 SL Mercedes", signed by Henry (or Harry; signature almost illegible) Hamilton. Jim McDougal had previously written check # 691 for \$37,149.30 to Execucar Inc. on 4/9/85. In one instance, the funds were rebated to the McDougal's when their account balance was in an excessive state of overdraft.

On 5/24/85, check # 760 for \$83,233.29 was issued from the McDougal's account to Union National Bank, allegedly for a loan payment. The date the check was written, the McDougal's account contained a balance of \$963.19; Jim McDougal procured loan #2764 for \$85,000 from MGSL, depositing the funds into their joint account to cover the check to Union National Bank. However, despite the deposited loan proceeds, the \$83,233.29 check was force paid, putting the McDougal's account balance at \$4,096.03.

It should also be pointed out that the McDougal's clearly diverted funds from their MGSL home purchase and improvement loan of \$381,502, funded in 2/85, for other purposes. Over \$100,000 was diverted for the purpose of bringing principal and interest payments current on five separate MGSL loans, as evidenced by McDougal check # 611 for \$95,562.62, and check # 612 for \$5,659.17. It should be further noted that check #616 for \$4,500 was written from the loan proceeds to Lorane McDougal, a relative, for undisclosed purposes.

In addition to McDougal's blatant misuse of position in allowing his personal account to exist in such an overdrawn state, he allowed the same circumstances to occur with the combined shell companies as well. Between 12/84 and 5/85, there were 16 overdraft situations within the accounts of the combined companies. The majority of these overdrafts were cured by deposits from one company to another, sometimes by "kiting" funds between accounts in which insufficient balances existed. This allegedly happened on at least two occasions with Whitewater Development, who evidently had another account (possibly at Bank of Kingston, now Madison Bank & Trust), into which funds were deposited from the MGSL Whitewater account, leaving it in an overdraft status.

During the target time frame, Whitewater Development wrote a minimum of 10 checks, totalling \$70,639.41. Of these 10 checks, five checks totalling \$60,625 were written on insufficient funds. The ensuing overdrafts were covered by funds from the other combined companies, some of which were provided by bank loans. Some of the Whitewater checks with more significant dollar amounts, such as check # 118 for \$7,800, and # 128 for \$5,071.23, were payable to The Bank of Cherry Valley for principal and interest on two separate loans, and were written on insufficient funds. Check # 118 was force paid, overdrawing Whitewater's account by \$47,492.04, where the balance remained until check # 152 from Tucker-Smith-McDougal for \$7,500 was deposited into Whitewater's account. The circumstances surrounding Whitewater check # 128 were similar, only the deposit came from the combined accounts of Rolling Manor, Tucker-Smith-McDougal, Flowerwood Farms and Pembroke Manor. Maurice Smith, principal and/or loan officer of the Bank of Cherry Valley, is allegedly a long time associate of Jim McDougal. Smith was also a frequent caller to Jim McDougal, according to the MGSL phone message logs.

Each instance in which Whitewater's actions resulted in an overdraft, no service charge or fees were assessed, with the exception of two in 1985, both of which were refunded. The two largest checks written by Whitewater during this time frame, check #137 for \$25,000, payable to Ozarks Realty Co., and check # 138 for \$30,000, payable to James McDougal (alleged "loan repayment" - although the records show no indication of any loan from McDougal to Whitewater) were both force paid as there were insufficient funds in the account to cover either check. When the \$25,000 check paid, placing the balance at \$24,470.90, the overdraft was covered by a check from Flowerwood Farms for \$24,455.90 (the amount of the overdraft, less the \$15 service charge which was later refunded). The Flowerwood funds came from the proceeds of a \$135,000 cashiers check drawn on Stephens Security Bank, Stephens, Arkansas. The \$30,000 check written from Whitewater to James McDougal was written when Whitewater had a balance of \$270.13. When the check was force paid, the balance went to \$29,744.87, where it remained for two weeks until a \$30,000 check from Madison Financial Corporation (subsidiary of MGSL) was deposited into Whitewater's account. There was no explanation given as to why Madison Financial would have given (or even "loaned") Whitewater Development \$30,000.

At this juncture, it should be noted that shortly after the target time frame, in October 1985, the MGSL Board of Directors minutes reflect that Madison Financial Corporation was overdrawn by \$2.7 million; the Board subsequently voted to call the overdraft "an investment in the service corporation", as up to 6% of the Association's assets could be invested in service corporations, from a regulatory standpoint. It should be further noted that the \$30,000 check James McDougal received from Whitewater was endorsed to Earth Movers, Inc., (whose principal is former Senator J. W. Fulbright).

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who subsequently endorsed it to Madison Guaranty for the purpose of obtaining a cashier's check (drawn from MGSL account #7001312, transaction #7801). The cashier's check is currently unavailable, so the final destination of the funds is yet undetermined.

In addition, it should be pointed out that the records of the former MGSL Chief Financial Officer, Greg Young, reflect a \$30,000 "reserve" payment anticipated from Whitewater Development in 10/85 for an "engineering survey"; this information appears on a flow chart relating to Maple Creek Farms, a land investment/subdivision development of Madison Financial Corporation, and a second tier subsidiary of Madison Guaranty Savings & Loan. In addition, every month during the target time frame, Susan McDougal deposited a check for \$283.13 from Logan Charter Service into the Whitewater account; these funds were diverted from the Bank of Kingston to whom they were all payable, and endorsed by Susan McDougal to Whitewater's MGSL checking account in an apparent effort to keep a minimal balance in the account.

Forgery is also alleged to be a possible factor in several of the checks written on the Whitewater account. According to the MGSL signature card for Whitewater Development Corporation, Inc., the only signatory on the account is Susan McDougal; however, the signature on the card allegedly bears little resemblance to Susan McDougal's actual signature. It is interesting to note that the \$25,000 check written on the Whitewater account to Ozarks Realty Co., has "James B. McDougal" signed to it even though he is not a signatory on the account. The signature on the check was allegedly signed by someone else, whose handwriting bears a striking resemblance to that of Lisa Anspaugh, a McDougal business associate in a number of other enterprises. In fact, Ms. Anspaugh allegedly forged or signed both James and Susan McDougal's signature to checks drawn on all of the combined companies accounts on numerous occasions during the time frame in question. Although at least one of the checks written by Whitewater to the Bank of Cherry Valley was actually signed by Jim McDougal, most of them were signed "James B. McDougal", allegedly by Susan McDougal or Lisa Anspaugh. If these were not actual instances of forgery, per se, then there were certainly numerous cases of unauthorized signatures on the accounts. That being the case, the McDougal's apparently set few parameters for "signature authority" on their personal and corporate accounts, with multiple checks showing no less than three different signatures for "James B McDougal" and no less than four different signatures for "Susan B McDougal".

An overview of the Whitewater account history supports possible criminal action on the part of Susan McDougal, Lisa Anspaugh, and at least one other individual, for alleged forgery, or unauthorized signatures in the name of James B. McDougal (and in the case of Lisa Anspaugh, the name of Susan McDougal) on numerous checks. In addition, the fact that James McDougal was not a signatory on the account, but signed checks regardless of that fact, shows his reckless disregard for regulatory requirements and banking laws. McDougal's documented willingness to allow the frequent overdraft status on the Whitewater account, ensuring that loans payments were made and corporate obligations met, served his own benefit as well as that of some or all of his business partners. Although circumstances point to the probability that some or all of his business partners were aware of the activity taking place within the Whitewater partnership and corporate checking accounts, there is insufficient evidence at this time to prove that they had knowledge. Consequently, these individuals will appear on the list of witnesses contained at the end of this referral.

Similar instances were allowed to occur with the account of Tucker-Smith-McDougal, whose principals were James McDougal, Jim Guy Tucker and Stephen A. Smith. The following examples are noted:

- On 1/22/85, check #161 for \$3,894.66 was written to First Commercial Bank for "interest" on a commercial loan. James McDougal's signature was allegedly signed or forged by Susan McDougal, who was technically the only signatory on the MGSL signature card. The date the check was written, the account did not contain sufficient funds, and subsequently went into an overdraft status of \$42,953.00 when the check force paid. The overdraft was cleared with a check from Flowerwood Farms (#176) for \$3,500 on 1/28/85.

- On 3/13/85, check #166 for \$4,000 was written to Citizen's Bank for "release deed Madison County". James McDougal's signature was yet again allegedly signed by his wife, Susan. The date the check was written, the Tucker-Smith-McDougal account did not contain sufficient funds, and the account went into overdraft status of \$<3,027.69> when the check was force paid on 3/19/85. The account maintained an overdraft status until 4/9/85, when a deposit of \$9,189.69 was received from Flowerwood Farms (check # 193). The funds from Flowerwood Farms were exactly enough to cover the existing overdraft, plus cover Tucker-Smith-McDougal check # 169 for \$5,664.73 which had been written to Citizen's Bank of Marshall, Arkansas, on 4/1/85 before there were sufficient funds available to honor the check.
- On 3/11/85, First Mortgage, Inc. wrote check # 5923 for \$1,150 to Madison Guaranty Savings and Loan. This check was allegedly endorsed by Susan McDougal for Madison Guaranty, and deposited to the account of Tucker-Smith-McDougal the day before a \$2,500 check written to Whitewater cleared the account, leaving a balance of \$72.31.

Similar instances involving the Flowerwood Farms account have been previously evidenced through the examples used in conjunction with the McDougal's personal checking account. Additional specific information on activity in each of the combined accounts will be forthcoming in the chronology of events which follows.

The extent of the foregoing activities will substantiate this referral's allegations of check kiting between the related entities ("the combined companies"), as well as transactions between McDougal's personal account and the combined companies. This referral will further allege that, due to the extended period of time over which these transactions occurred, these actions were probably known to some or all of the principals of the combined companies. Each of these principals appear on the witness list, as there is insufficient evidence at this time, as previously stated, to prove that they had knowledge of these activities. This range of events further serves to support the allegations of forgery, misuse of position, diversion of funds, and probable bank fraud as well as conspiracy to defraud the Institution on the part of James McDougal, Susan McDougal and Lisa Anspeugh.

7b. GIVE A CHRONOLOGICAL AND COMPLETE ACCOUNT OF THE SUSPECTED VIOLATION: (Use continuation sheet, if necessary.)

- Relate key events to documents and attach copies of these documents

For purposes of clarification, the following chronology of events is broken down by entity account, and in the case of James & Susan McDougal, by individuals.

James B. and Susan E. McDougal, MGSL Account # 424

1/28/85 Check # 577 for \$13,181.07 was issued to Worthen Bank for principal and interest payment on a loan. James McDougal's signature appears to have been forged, or signed by an unauthorized party on his behalf. There were insufficient funds in the account that date check # 577 was written; however, the McDougal's received a "personal loan" of \$14,000 from Flowerwood Farms, Inc. (check # 179 - showing an allegedly forged "Susan McDougal" signature) on 1/29/85. Despite the \$14,000 "loan"/deposit, the check to Worthen Bank was force paid on 2/6/85, leaving the account overdrawn \$<4,116.97>, where it remained until 2/7/85 when a deposit of \$5,127.04 was received from an unknown source.

2/5/85 Check # 589 for \$3,154.28 was issued to the IRS. The check was allegedly signed by Susan McDougal. On the date it was written, the account was overdrawn by \$<3,282.00>. When the check cleared on 2/19/85, the account's overdraft status increased to \$<8,777.05>. As previously noted, the initial overdraft status on the account was caused when check # 577 for \$13,181.07 to Worthen bank was force paid.

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- 2/19/85 Check # 611 for \$93,562.62 was issued too Madison Guaranty Savings & Loan, for principal and interest payments on five McDougal related loans. This check cleared from loan proceeds of \$351,502.80 deposited to McDougal's account on 2/22/85. The proceeds were designated "purchase and renovation of home" for the McDougals; however, over \$100,000 of the proceeds were ultimately diverted for the purpose of bringing other debt current.
- 2/19/85 Check # 612 for \$8,659.17 was issued to Madison Guaranty Savings & Loan for interest on a McDougal related \$85,000 unsecured commercial loan. Again, the check cleared through the funds provided by proceeds from the home loan.
- 2/20/85 A deposit for \$1,000 was credited to the McDougal's account; the deposit was check # 181 from Flowerwood Farms, allegedly signed by Susan McDougal, and deposited to their account when it was overdrawn \$<11,687.09>.
- 2/21/85 Check # 615 for \$178,301.02 was issued to Madison Bank & Trust (formerly the Bank of Kingston) to payoff "#4 Betterwood Mortgage at Pulaski Bank". #4 Betterwood is the address of the McDougal's new home. It is recommended that the Pulaski Bank records be reviewed to verify this information.
- 2/22/85 A deposit for \$10,000 was credited to the McDougal's account; the funds coming from Madison Marketing check # 238 payable to Susan McDougal, with no specific stated purpose. Prior to this deposit, the McDougal's account was overdrawn \$<8,612.05>.
- 2/22/85 Loan proceeds, in the form of Cashier's Check # 2218 for \$351,502, were deposited into the McDougal's account. As noted, this loan was for the stated purpose of purchasing and renovating a home.
- 2/26/85 Check # 616 for \$4,500 was issued to Lorene McDougal, one of Jim McDougal's relatives. This check did not indicate a specific purpose, and cleared through the funds provided by the loan proceeds. As the McDougal's were contributing to the Clinton Campaign Fund during this time frame, it is recommended that a further investigation be undertaken to determine the possibility that these funds were provided to Lorene McDougal for the possible purpose of making additional campaign contributions on behalf of the McDougals or Madison Guaranty.
- 2/27/85 Check # 617 for \$450 was issued to Lorene McDougal. Again, there was no designated purpose on the check, which raises the previously unanswered question. Both checks to Lorene McDougal were signed by Susan McDougal.
- Check # 157 for \$4,900 was issued to Madison Bank & Trust for interest on loan # 3376.72. This check also cleared from the home loan proceeds, putting the dollar amount of funds diverted for other debt to over \$100,000.
- NOTE: It appears that the McDougal's each kept their own set of checks for their account #424, and would apparently write checks from which ever pad was available at the time. The numbers on the checks frequently range all over the spectrum in a non-sequential order.
- 3/1/85 Check # 158 for \$8,250 was issued to Robert T. Wilson for "payment on note". Wilson's specific role in this transaction has not been defined, nor has the purpose of the "note" (loan) in question. Jim McDougal allegedly signed this check, which appears to be a fairly rare occurrence.
- 3/10/85 Check # 178 for \$13,248 was issued to Haynes Auto, with no specifically stated purpose, but would appear to be for the purchase of a car. The check is signed "Susan McDougal", but does not appear to be Susan McDougal's alleged signature. This check cleared from the home loan proceeds. The same day check # 179 for \$1,738 was issued to Haynes Auto,

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again with no specifically stated purpose, and check # 180 for \$13,250 was written to a Mr. Charles Bronson, for no specifically stated purpose. All three of these checks, totalling \$28,236, cleared from the proceeds of the McDougal's home loan.

- 3/10/85 Check # 181 for \$4,852 was issued to ITT Kruse Int.; the memo field shows several loan numbers. It is recommended that records be subpoenaed to determine the nature of, and participants in, this loan.
- 3/19/85 Madison Guaranty Savings issued check # 2104 for \$30,750 to James B. McDougal for "reimbursement for lease auto purchased for Leasing Department". It is recommended that further investigation be conducted to determine if this was reimbursement for the \$14,980 in checks written to Baynes Auto on 3/10, and possibly the \$13,250 check also written on 3/19, to Charles Bronson. If this is the case, the checks written on 3/10 totalling \$28,236, indicating that James McDougal was reimbursed for \$2,514 that he did not actually spend.
- 3/29/85 Check # 676 for \$11,000 was issued to Quapaw Title Company, with no stated purpose. This transaction would seem to indicate the possibility of a formal real estate sale or closing of some type; possibly related to the purchase of the McDougal's home, or related in some manner to the \$25,000 transaction between Whitewater Development and Ozarks Realty Company. It is recommended that the Quapaw Title Company and Ozarks Realty Company records be reviewed to assess the purpose of the \$11,000 check from the McDougals, and it's potential relationship to Whitewater and Ozarks Realty, if any.
- 4/4/85 Check # 688 for \$3,000 was issued to the Bill Clinton Campaign Fund, and allegedly signed by Susan McDougal. The account balance on the date the check was written stood at \$<7,897.73>; when the check cleared on 5/3, the overdraft status increased to \$<10,897.73>. The account balance remained at this level until 5/9 when \$5,281.21 was deposited from an unidentified source.
- 4/9/85 Check # 691 for \$37,149.30 was issued to Execucar, Inc., allegedly a subsidiary of Madison Financial Corporation. The check did not state a specific purpose. When the check was written, the account had a balance of \$34,538.78; the check cleared on 4/12 overdrawing the account by \$<10,075.00>. Funds totalling the exact same amount were deposited into the McDougal's account on 4/22; the source being a Madison Guaranty Savings & Loan counter check for \$37,149.30, allegedly signed by either Harry or Barry Hamilton, with the notation "85 MB, 380 AL". It is conceivable that McDougal purchased the car, and then sold it for the same amount two weeks later. However, when considered with the fact that a similar situation occurred with McDougal and Execucar 9 days later on 4/18, the sale/purchase theory becomes increasingly implausible.
- 4/17/85 A deposit of \$33,000 was credited to the McDougal's account; the source remains unidentified at this time, but research continues.
- 4/18/85 Check # 697 for \$29,209.30 was issued to Execucar, Inc. for a black Mercedes. The same amount was refunded to the McDougal's account by Execucar on 5/1/85 when their account was overdrawn by \$<28,812.96>. By this point the McDougal's have evidently purchased, and either returned or sold, two expensive cars in a 10 day period of time. It is recommended that these transactions be further investigated through the records of Execucar, Inc. to determine that nature of this activity.
- 4/19/85 Check # 699 for \$35,000 was issued to Flowerwood Farms; this was a "loan" to cover Flowerwood's existing overdraft of \$<50,994.17>, which occurred as a result of an \$88,612.68 payment to Madison Guaranty Savings & Loan on

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- a McDougal related loan. At the time the \$55,000 check/"loan" to Flowerwood was written, the McDougal's had \$19,429.50 in their account. When the check was force paid on 4/23, the McDougal's account was overdrawn by \$<38,077.82>
- 5/1/85 Check # 723 for \$1,207.30 was issued to Madison Guaranty for the April and March payments on McDougal related loan # 1064. The account was overdrawn \$<7,897.73> when the check force paid on 5/3/85. The end result of this transaction appears to be the McDougal's overdrawing their account, resulting in an unauthorized "loan" from the Association, in order to pay the Association for their April and March loan payments, there appears to be little, if any, logic to these circumstances.
- 5/1/85 Check # 704 for \$50 was issued to the Democratic Party of Arkansas, for the purchase of "2 Jefferson Jackson Day dinner tickets". The account balance was \$<5,826.36> when the check force paid.
- 5/15/85 Check # 748 for \$20,000 was issued to Madison Guaranty for the purchase of Cashier's Check # 2704. The remitter on the Cashier's Check was Earth Mover's, Inc., whose principal is J.W. Fulbright, former Senator from Arkansas. Fulbright endorsed the check "for deposit only to Riggs National Bank" on 5/18. On 5/20, \$20,000 was deposited into McDougal's account which was overdrawn \$<17,682.20> at the time. The source of the deposit is undetermined at this time. It is recommended that Riggs National Bank records be reviewed to determine the possibility that these funds traveled from Fulbright back to McDougal. If so, this transaction is a likely candidate for possible check kiting.
- 5/16/85 A deposit of \$8,370 was credited to McDougal's account, which was overdrawn \$<26,052.20> at the time. The funds came from Flowerwood Farms check # 204 for \$190, Pembroke Manor check # 128 for \$5,300, Great Southern Land Company check # 126 for \$180, Rolling Manor check # 212 for \$2,400 and McDougal & Associates check # 107 for \$300. Each of the checks was designated as a "loan".
- 5/24/85 Check # 760 for \$83,233.29 was issued to Union National Bank. When the check was written, the account contained \$963.19. McDougal borrowed \$85,000 from MGSL (loan # 2764), and the loan proceeds were deposited into their account to cover the \$83,233.29 check. However, when the check cleared on 5/31, it was forced paid, leaving the account with an overdraft balance of \$<4,096.03>.
- Whitewater Development Corporation, Inc., Account # 2301515
Principals: James and Susan McDougal
Bill and Hillary Rodham Clinton
- 12/7/84 The Whitewater account was overdrawn by approximately \$<6,000>, when a deposit for \$9,310 brought the balance up to \$3,423.65. The deposit was made up of funds from the accounts of the combined companies: Tucker-Smith-McDougal check # 199 for \$1,600, Rolling Manor check # 198 for \$330 and Pembroke Manor check #120 for \$7,100. Each check was designated as a "loan" to Whitewater, and each check was allegedly signed by either Susan McDougal, or Lisa Ansbaugh signing as Susan McDougal. Once the deposit was credited, Whitewater issued check # 127 for \$1,27-18 to the Bank of Cherry Valley, taking the account balance down to \$147.47.
- 1/4/85 Check # 128 for \$5,071.23 was issued to the Bank of Cherry Valley. The check was signed "James B. McDougal" (who had no signature authority on the account) allegedly by Susan McDougal, based on the handwriting. This check cleared the Whitewater account on 1/11 - the day after a deposit for \$4,660 was made to Whitewater by the combined companies accounts.

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- 1/10/85 Whitewater received a deposit for \$4,660 from the combined company accounts of Rolling Manor, Tucker Smith McDougal, Flowerwood Farms and Pembroke Manor, bringing the account balance to \$5,095.17.
- 1/22/85 Check # 129 for \$1,000 was issued to Whitewater Development Corporation, with the notation "Acct 317.5". This check cleared on 1/28; the same day that Flowerwood Farms issued check # 177 for \$1,000 to Whitewater, bringing the account balance up to \$1,446.07. Without the benefit of the deposit from Flowerwood, the check written by Whitewater to the Bank of Cherry Valley would have been insufficient.
- 2/15/85 Check # 132 for \$3,000 was issued to Chris Wade (an appraiser, according to MGSL Board Minutes), with no specific stated purpose. The check was signed "James S. McDougal", allegedly by Susan McDougal. This check cleared on 3/13, when the Whitewater account was already overdrawn \$<1,891.03>, increasing the overdraft to \$<4,891.03>. On the same date, there was a deposit made to the Whitewater account from the combined companies accounts, curing the overdraft.
- 2/18/85 Check # 133 for \$1,625 was issued to Charles E. James, "for accounting" services. The check was signed "Susan McDougal", allegedly by someone other than Susan McDougal. This check cleared on 2/21/85, putting the account into overdraft status by \$<1,192.06>. The account effectively stayed overdrawn until 3/13, when three deposits (two from the combined companies and one from an undetermined source) totalling \$8,800 were credited. The deposits were for \$3,300, from the combined accounts, \$2,500 from Tucker Smith McDougal, and \$3,000 from an unidentified source. Given the proximity of this deposit to the \$3,000 check written to Chris Wade, it is recommended that further research be conducted to determine the possibility of Wade "refunding" the \$3,000 back to Whitewater, which could account for the "mystery deposit."
- 2/21/85 Check # 134 for \$1,000 was issued to Whitewater Development Corporation with the notation "Account 317.5". The date the check was written the account balance was \$<1,192.06>, and when the check cleared on 2/28, the overdraft status increased to \$<1,906.93>. Evidence points to the probability that the MGSL Whitewater account was allegedly "swapping", or kiting, checks with a sister account at another bank, in order to maintain a certain account balance.
- 3/7/85 Check # 135 for \$650 was issued to Charles James, again for "accounting" services. This check cleared the account, taking the balance to \$258.97 on 3/22.
- 3/22/85 Check # 137 for \$25,000 was issued to Ozarks Realty Company; the purpose was not stated on the check. This check was signed "James S. McDougal", allegedly by Lisa Anspaugh, based on the handwriting. The date the check was written, Whitewater's account reflected a balance of \$258.97; when the check force paid on 4/1, the account was overdrawn by \$<24,470.90>, which included a \$15 overdraft charge that was later rebated. The account stayed overdrawn until 4/9 when a \$24,455.90 deposit was received from Flowerwood Farms (check # 194). This deposit amount was exactly the amount of the overdraft, less the \$15 overdraft charge. Flowerwood Farms provided the funds from a \$135,000 cashiers check drawn on Stephens Security Bank of Stephens, Arkansas, which had previously been deposited to its account.

NOTE:

According to various Oklahoma, Texas and New York newspaper reports from March 1992, this could have been the time frame in which Whitewater was conducting transactions regarding the house that was allegedly purchased and subsequently sold by Ms. Clinton. It is recommended that the Whitewater and Ozarks Realty records be reviewed to determine the possibility of any existing relationship between these two transactions, and the nature of any such relationship, if found.

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- 4/9/85 A deposit of \$24,455.90 was credited to Whitewater's account. As previously noted, the funds came from Flowerwood Farms check # 194.
- 4/19/85 Check # 138 for \$30,000 was issued to James B. McDougal with the notation "loan repayment". When the check was written, the account balance was \$270.13; when the check forth paid, the account was overdrawn by \$<29,744.87>. This check was signed "Susan McDougal", allegedly by Lisa Anspaugh. James McDougal endorsed this \$30,000 check to Earth Movers Inc. (J. W. Fulbright), who in turn endorsed it to Madison Guaranty for the purchase of a Cashier's Check, drawn from MGSLL account # 7001312, transaction # 7801. Research to locate the firm of the Cashier's Check is continuing.
- 4/29/85 Check # 139 for \$17 was issued to the Arkansas Director Finance Administration for the 1985 corporate franchise tax. The check was signed "Susan McDougal", allegedly by Lisa Anspaugh.
- 4/30/85 A deposit for \$30,000 was credited to Whitewater's account. The funds were provided by Madison Financial Corporation, but no purpose was stated on the check. This deposit brought the Whitewater balance from \$<29,744.87> to \$255.13. It is recommended that the records of Madison Financial Corporation be reviewed to determine the specific business purpose of the funds remitted to Whitewater Development. The check from Madison Financial was signed by MGSLL Chief Financial Officer, Greg Young, who was also responsible for creating the previously referenced "Reserves" spreadsheet (see referral summary) in which a 10/85 \$30,000 "engineering survey" fee was to be charged to (or reserved from) Whitewater Development.
- Tucker-Smith-McDougal, MGSLL Account # 2301353
Principals: James B. McDougal
Jim Guy Tucker
Stephen A. Smith
- 1/22/85 Check # 161 for \$3,894.66 was issued to First Commercial Bank for interest on a loan. The check was signed "James B. McDougal", allegedly by Susan McDougal. James McDougal does not appear on the signature card as a signatory on this account. The date the check was written, the account balance did not contain sufficient funds; when the check cleared on 1/28, the account was overdrawn \$<2,953.00>. The same day, Flowerwood Farms made a \$3,500 "loan" (check # 176) to Tucker Smith McDougal, allegedly for the purpose of covering the overdraft.
- 2/7/85 Check # 162 for \$3,000 was issued to James B. McDougal as a "personal loan". The check was allegedly written and signed by Susan McDougal. This check was deposited to McDougal's account along with a check from Madison Financial Corporation for \$2,127.04 noted as "salary" on the deposit slip.
- 2/14/85 Check # 163 for \$300 was issued to James B. McDougal for "petty cash." This check was also allegedly written and signed by Susan McDougal.
- 2/17/85 Check # 164 for \$1,600 was issued to Charles E. James for "accounting" services. The check was signed "Susan McDougal" allegedly by someone other than Ms. McDougal, and appears to be the signature showing on the actual MGSLL signature card. As previously noted, the signature on the MGSLL account signature card is not believed to be that of Susan McDougal.
- 3/11/85 A deposit of \$1,150 was credited to the Tucker Smith McDougal account according to the deposit slip, the funds were related to "Robert Armstrong". However, the check was actually payable to Madison Guaranty Savings, and endorsed on behalf of Madison Guaranty, allegedly by Susan McDougal, and subsequently deposited to the Tucker Smith McDougal account. This deposit was made one day prior to the clearing of Tucker Smith McDougal check # 176.

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- 3/12/85 Check # 165 for \$2,500 was issued to Whitewater Development. This check, along with checks from the other combined companies accounts totalling \$3,300, were deposited to Whitewater on 3/12, curing an overdraft of \$4,891.03. The overdraft status in the Whitewater account was caused by the force pay of check # 132 for \$3,000 issued to Chris Wade.
- 3/13/85 Check # 166 for \$4,000 was issued to Citizens Bank for "release deed in Madison County". This check was signed "James B. McDougal", allegedly by Susan McDougal. The date the check was written, there were insufficient funds in the Tucker Smith McDougal account; the check cleared on 3/19, overdrawing the account by \$43,927.60. This overdraft situation existed for three weeks, until 4/9, at which time a deposit of \$9,189.69 was made into the account by check # 193 from Flowerwood Farms. The difference in the deposit amount and the new account balance, \$5,664.73, was exactly the amount necessary to cover Tucker Smith McDougal check # 169 for \$5,664.73 to Citizen's Bank, written on 4/1 when the account was still overdrawn.
- 4/2/85 Check # 169 for \$5,664.73 was issued to Citizen's Bank of Marshall, Arkansas for payment on "notes 40071190 and 00031484". The status of the account at this time was sufficiently discussed in the foregoing Tucker Smith McDougal transaction dated 3/13/85.
- Flowerwood Farms, Inc. MSL Account # 2301361
Principals: Undetermined at this time
- 12/11/84 Check # 170 for \$8,000 was issued to James B. McDougal. At the time this check was issued, the McDougal's account was overdrawn by \$4,095.39. This deposit from Flowerwood brought the balance up to \$3,904.61.
- 1/10/85 Check # 172 for \$1,430 was issued to Whitewater Development as part of a \$4,660 deposit. The funds from this deposit were allegedly used to cover Whitewater's check # 128 for \$5,071.23 to the Bank of Cherry Valley.
- 1/22/85 Check # 173 for \$6,202.26 was issued to First Commercial Bank for "Interest on note # 00003618". The check was signed "James P. McDougal" allegedly by Susan McDougal. The date the check was written, the account contained a balance of \$866.74. However, on 1/23 a \$28,500 deposit was credited to the account, received from Bill Benley (brother-in-law of Susan McDougal) allegedly for "20 acres in Pulaski County". The check for \$6,202.26 cleared the Flowerwood account on 1/25.
- 1/24/85 Check # 175 for \$3,500 was issued to James B. McDougal. This check was part of a \$4,675.41 deposit to McDougal's account.
- 1/28/85 Check # 176 for \$3,300 was issued to Tucker Smith McDougal for the alleged purpose of covering the existing Tucker Smith McDougal overdraft. This check was allegedly signed by Susan McDougal.
- 1/28/85 Check # 177 for \$1,000 was issued to Whitewater Development as a "loan" to cover Whitewater's existing overdraft. This check was allegedly signed by Susan McDougal.
- 1/29/85 Check # 179 for \$14,000 was issued to James P. McDougal as a "personal loan". This check was signed "Susan McDougal", allegedly by someone other than Susan McDougal. The loan was allegedly intended to cover a \$13,181.07 check written on McDougal's account to Worthen Bank; however, the check was force paid, and McDougal's account was overdrawn.
- 3/12/85 Check # 183 for \$1,300 was issued to Great Southern Land Company, designated as a "loan." The same day, check # 184 for \$500 was issued to McDougal & Associates, also designated as a "loan. This check was signed "Susan McDougal", allegedly by Lisa Anspaugh.

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- 4/1/85 Check # 188 for \$11,763.11 was issued to International Paper Realty Corporation as a principal and interest payment on a note. The check was signed "Susan McDougal", allegedly by someone other than Susan McDougal. There was a balance of \$1,550.91 in the account the date the check was written; however, a \$135,000 deposit was received and credited prior to this check clearing.
- 4/3/85 Check # 189 for \$53,053.41 was issued to First Commercial Bank to "pay off commercial loan". Funds for this check were derived from a \$135,000 deposit to Flowerwood's account the same day.
- 4/3/85 A deposit of \$135,000 was credited to the Flowerwood account from a Cashiers Check drawn on the Stephens Security Bank of Stephens, Arkansas. Funds from this deposit were remitted from Flowerwood to:
- Madison Guaranty for \$3,000, check # 192 (further research into the possibility that this was a campaign contribution has previously been suggested)
 - Tucker Smith McDougal for \$9,189.69, check # 193, allegedly to cover an existing overdraft.
 - Whitewater Development for \$24,455.90, check # 194, allegedly to cover the overdraft caused by Whitewater's check for \$25,000 to Ozarks Realty.
 - First Commercial Bank for \$53,053.41, check # 189, allegedly for a McDougal related loan payoff.
 - International Paper Realty for \$11,763.11, check # 188, for a loan payment
 - Madison Guaranty Savings and Loan for \$86,612.68, check # 196, allegedly to pay off a McDougal related loan. This check overdraw the account by \$<50,994.18>, which was subsequently covered by James B. McDougal's check for \$55,000, which overdraw McDougal's account by \$<28,077.8>
- 4/4/85 Check # 192 for \$3,000 was issued to Madison Guaranty Saving; there was no specific purpose stated on the check. As previously noted in this referral, it was recommended that further research be conducted into the disposition of these funds to determine the possibility that this was an additional campaign contribution, given the time frame involved.
- 4/9/85 Check # 193 for \$9,189.69 was issued to Tucker Smith McDougal, allegedly for the purpose of covering the existing overdraft in the Tucker Smith McDougal account, as well as covering the yet outstanding Tucker Smith McDougal check # 169 for \$5,664.73 to Citizen's Bank.
- 4/9/895 Check # 194 for \$24,455.90 was issued to Whitewater Development, allegedly to cover Whitewater's overdraft, as previously noted. This check was signed "James B. McDougal", allegedly by Lisa Ansbaugh.
- 4/17/85 Check # 196 for \$86,612.68 was issued to Madison Guaranty Savings & Loan for "principal and interest" on McDougal related loan # 1591. This check overdraw the Flowerwood account by \$<50,994.18> when it was force paid. Funds to allegedly cover this overdraft were provided by check # 699 for \$55,000 from James B. McDougal's account. As noted in prior transaction analyses, the \$55,000 check from McDougal overdraw his account by \$<28,077.82>. This transaction provides a blatant example of the check kiting alleged in the summary of the referral.

5/16/85

Check # 204 for \$190 was issued to James B. McDougal as a "loan." This check was part of a deposit from the combined accounts totalling \$8,370, which went into McDougal's account at a time when it was overdrawn \$<26,052.20>

Of the combined companies accounts, Flowerwood Farms, Inc., Whitewater Development Corporation, Inc., and Tucker Smith McDougal, in conjunction with the personal account of James B. and Susan H. McDougal, were the most active and egregious contributors to the alleged overdraft and check kiting activities. Although the other entities, (Rolling Manor, Inc., Pembroke Manor, Inc., Great Southern Land Company, McDougal & Associates, etc.) contributed a significant share of the "combined companies" deposits and "loans" between the various accounts, the specifics regarding their activities have been omitted for the purposes of brevity. Individual transaction information for the "combined companies" accounts during the 12/84 - 5/85 time frame can be found in the attached database report, which outlines the dates, transaction types, check numbers, payee, payor and deposit recipients. This database has been individually sorted by date, dollar amount, payee, payor and deposit recipient in order to facilitate ongoing research and further investigative activities.

- Explain who benefitted, financially or otherwise, from the transaction, how much, and how.

Those who allegedly stood to gain the most benefit from these numerous and questionable inter-account transactions, were the principals of the combined entities; James and Susan McDougal, Lisa Anspaugh (who is a principal in Designer Construction and allegedly Madison Marketing, as well as an alleged business associate of Jim Guy Tucker), Bill and Hillary Rodham Clinton, Jim Guy Tucker, Steve Smith, and any other principals as yet unidentified. The overdrafts and "loan" transactions, or alleged check "swapping" and kiting, between the combined companies accounts ensured that loan payments and other corporate obligations were met, thus clearly benefitting the principals of each entity.

In addition, the McDougal's stood to gain extensive financial benefit by utilizing these various shell companies as a vehicle through which to channel funds from Madison Guaranty, through Madison Financial and it's subsidiaries, into the personal account of James and Susan McDougal.

- Furnish any explanation of the transaction provided by the suspect and indicate to whom and when it was given.

To date, no explanation has been given by any suspect.

- Furnish any explanation of the transaction provided by any other person.

No explanations of these transactions have been provided by anyone other than the Investigator at this time.

- Furnish any evidence of coverup by the suspect, or evidence of an attempt to deceive federal or state examiners or others.

This entire series of transactions by and between the combined companies and their accounts is being alleged as an effort by the McDougal's to "smokescreen" the flow of funds from Madison Guaranty and it's subsidiaries, into the various entities owned and operated by the McDougal's and their business associates.

- Indicate where the suspected violation took place (e.g., main office, branch, other).

These violations collectively took place at the Madison Guaranty Savings & Loan office at 16th and Main.

MADISON GUARANTY SAVINGS & LOAN
CRIMINAL REFERRAL 00001
AUGUST 31, 1992
PAGE 18

- Recommend any further investigation that might assist law enforcement in fully examining the potential violation.

Individual recommendations have been noted within the transactional analyses throughout the body of the referral. However, it should be reiterated that certain individuals on the witness list should be extensively interviewed with regard to their knowledge of the activities between the combined companies and their accounts.

- 7c. Indicate whether the suspected violation appears to be an isolated incident or whether it relates to other transactions. (Explain)

No; this violation was not isolated, but rather ongoing over a period of three or more years, possibly making a significant contribution to the failure of the institution.

8. EXCLUSION OF INFORMATION FROM THE REFERRAL:

Has any pertinent information been excluded from this referral as a result of any legal or other restraint?

Yes ☒ No ☐ If so, why?

Have the excluded information or documents been segregated for later retrieval?

Yes ☒ No ☐

NOTE: DUE TO THE BULK OF THE EXHIBITS, THEY WILL BE SHIPPED TO THE U.S. ATTORNEY'S OFFICE UNDER SEPARATE COVER.

9. HAS SUSPECTED INDIVIDUAL(S) MADE ANY ADMISSIONS?

Yes ☒ No ☐ If so, who?

10. WITNESSES:

List any witnesses who might have information about the suspected violation and describe their position or employment. Indicate if they have been interviewed. (Use continuation sheet, if necessary.)

	NAME	POSITION	ADDRESS (CITY/STATE/ZIP)	TELEPHONE NUMBER	INTERVIEWED	
					YES	NO
1.	Bill Chance	Governor/AR and McDougal business associate	Little Rock, Arkansas	Unknown		X
2.	Hillary Rodham Clinton	Governor/MOSL and McDougal business associate	Little Rock, Arkansas	Unknown		X
3.	Jim Gray Tucker	Lt. Governor/AR and McDougal business associate	Little Rock, Arkansas	Unknown		X
4.	Stephen A. Smith	McDougal business associate	Little Rock, Arkansas	Unknown		X
5.	J. W. Fuldridge	McDougal business associate	Little Rock, Arkansas	Unknown		X
6.	Greg Young	Former MOSL Chief Financial Officer	Little Rock, Arkansas	Unknown		X

In addition to the foregoing witnesses, it is also recommended that the following individuals be interviewed with respect to their knowledge:

Kirby Randolph - former receptionist at MOSL, and recipient of all monthly statements on the combined companies accounts in lieu of mailing; also the wife of R. D. Randolph, a McDougal business associate and frequent depositor to various combined companies accounts.

R. D. Randolph - former McDougal business associate; allegedly involved with several of the combined companies.

Bonnie Crocheron - currently employed by MGS's successor entity, Central Bank and Trust. Formerly involved in administration at the Association; allegedly knowledgeable regarding the Institutions Demand Deposit Accounts and their holders.

Charles E. James - accountant for the combined companies, and registered agent for Whitewater Development Corporation.

11. DISCOVERY AND REPORTING:

- a. Who discovered the suspected violation and when?
 Investigator; In May 1992
- b. Has the suspected violation been reported to the Board of Directors?
 Yes No Not Applicable
 By whom and when? Not Applicable
- c. Has the Board of Directors taken action?
 Yes No Not Applicable
 If so, what and when? Not Applicable
- d. Has the suspected violation previously been reported to federal or local law enforcement or to any federal or state supervisory agency?
 Yes ☒ No

If Yes, Agency:

Agent:

Address: (City/State)

Telephone Number:

12. LOSS:

- a. Amount of Loss known: \$ Undetermined at this time
- b. Restitution by: Not Applicable
 In the amount of: \$ Not Applicable
- c. Name of Applicable Surety Bond Company:
- d. Amount of Bonds: \$
- e. Amount of deductible: \$
- f. Was claim filed? Yes No
- g. Settlement by Surety Company: \$
- h. Total restitution and settlement to date: \$ Not Applicable
- i. Net Loss: (After subtracting any amounts paid in the form of restitution or settlement) \$
- j. Is additional loss suspected? ☒ Yes No
 (If yes, explain)

The nature of the transactions identified in this referral could lead to additional losses under further investigation.

- k. Has the suspected violation had a material impact on, or otherwise affected, the financial soundness of the institution? If so, please explain.

Yes; the activities identified and alleged within this referral could have contributed to the failure of the institution.

MADISON GUARANTY SAVINGS & LOAN
CRIMINAL REFERRAL CARD
AUGUST 31, 1992
PAGE 14

13. OFFER OF ASSISTANCE:

The individuals listed below are/will be authorized to discuss this referral with appropriate law enforcement officials and to assist in locating or explaining any documents pertinent to this referral, provided that contact is first made with:

NAME	TELEPHONE NUMBER
Lee O. Ausen/Department Head/ Criminal Investigations/KCCC	(816) 331-2212
L. Richard Iorio/Field Investigations Officer/KCCC	(816) 531-2212

14. FORM PREPARED BY: Laura Jean Lewis
Position: Criminal Investigator
Agency/Institution: Resolution Trust Corporation
Telephone Number: (816) 968-7237
Date: August 31, 1992

15. AUTHORIZATION FOR TRANSMITTAL:

<u>Laura Jean Lewis</u>	<u>8/31/92</u>
Investigator	Date
<u>Lee O. Ausen</u>	<u>8/31/92</u>
Criminal Investigations Department Head	Date
<u>L. Richard Iorio</u>	<u>9-1-92</u>
Field Investigations Officer	Date

736-TCO/ked
Revised 10/08/91
Crimrefnew

Washington, D.C. 20530

MEMORANDUM

TO: GERALD E. MCDOWELL
CHIEF
FRAUD SECTION

FROM: MARK J. MACDOUGALL *MM*
TRIAL ATTORNEY

RE: RESOLUTION TRUST CORPORATION CRIMINAL REFERRAL NO. C0004,
DATED AUGUST 31, 1992, NAMING JAMES B. MCDUGAL, SUSAN H.
MCDUGAL AND LISA ANSPAUGH

DATE: FEBRUARY 23, 1993

This memorandum responds to your request that a review of the captioned criminal referral be undertaken and a preliminary recommendation made regarding further investigation and prosecution. The referral names JAMES B. MCDUGAL (an officer, director and shareholder of the former Madison Guaranty Savings & Loan of Little Rock, Arkansas), SUSAN H. MCDUGAL (a director and shareholder of Madison Guaranty and the wife of James B. McDougal) and LISA ANSPAUGH (a business associate of the McDougals) as persons suspected of criminal violations. Ref. at 2, 3 and 4. The author of the criminal referral, Laura Jean Lewis (Criminal Investigator), also identifies Governor (now President) BILL CLINTON, HILLARY RODHAM CLINTON and Arkansas Lieutenant Governor (now Governor) JIM GUY TUCKER as witnesses. Ref. at 18. Further, the author of the referral makes allegations concerning former Senator J. WILLIAM FULBRIGHT but does not name Fulbright among the persons suspected of criminal violations. Ref. at 7-8, 12 and 14.

A. SCOPE OF REVIEW

In preparing this memorandum, the following documents were reviewed: (1) RTC Criminal Referral No. C0004, dated August 31, 1992, (2) Letter dated September 1, 1992 from L. Richard Iorio, RTC Field Investigations Officer, to Charles A. Banks, United States Attorney for the Eastern District of Arkansas, (3) Letter dated October 16, 1992 from Charles A. Banks to Don Pettus, Special Agent in Charge, Federal Bureau of Investigation/Little Rock Field

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February 23, 1993
Page 2

Office, and (4) Letter dated January 27, 1993 from Charles A. Banks to Donna Henneman, Office of Legal Counsel/Department of Justice. None of the transactional documents described in the referral were provided or reviewed. Accordingly, all references in this memorandum to factual allegations or claims are based solely on statements included in the referral.

B. CRIMINAL VIOLATIONS ALLEGED

The author of the referral cites conspiracy (18 U.S.C. § 371), misapplication (18 U.S.C. § 657) and bank fraud (18 U.S.C. § 1344), as suspected violations. Ref. at 1.

C. SUMMARY OF FACTUAL ALLEGATIONS

According to the referral, James and Susan McDougal were shareholders and directors of Madison Guaranty Savings and Loan of Little Rock, Arkansas. James McDougal is also identified as an officer of the institution. The extent of the McDougals' equity interest in Madison Guaranty and the office or offices held by James McDougal are not specified in the referral. Lisa Anspaugh is identified as a business partner of Susan McDougal who assisted Ms. McDougal in bookkeeping for various business entities. While no specific information is provided, the facts alleged in the referral suggest that the McDougals were also active in real estate development at the time of their association with Madison Guaranty.

The referral is focused on the activity in the demand deposit accounts maintained at Madison Guaranty by the McDougals and a group of business entities allegedly under their control during the period February 1984 through July 1987. The author of the referral alleges that various transfers of funds among these accounts, often involving the creation or funding of overdrafts, constituted criminal activity. The author specifically cites "unauthorized loans, check kiting, possible forgery (or at the very least, extensive use of unauthorized signatures), potential misappropriation of funds, possible illicit campaign contributions, diversion of loan proceeds, and potential bank fraud". Ref. at 5.

In support of these allegations, the author of the referral describes some 76 banking transactions, nearly all involving the making, presentment or payment of checks by one of the McDougals or by business entities associated with the McDougals. Ref. at 6 - 17. Based solely on this information, it would appear that the McDougals regularly issued checks on Madison Guaranty accounts with insufficient funds. Once payment was made on these checks, the resulting overdraft would often be funded by a check drawn on another McDougal account at Madison Guaranty, which frequently

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created yet another overdraft in the second account. Notations on some of the checks suggest that they reflected loans from one entity under the control of the McDougals to another or to one of the McDougals individually.

The referral further suggests that many of the checks bearing the signature of one of the McDougals were, in fact, signed by the other McDougal or by Lisa Anspaugh. The referral cites no evidence, however, that any instruments were executed in the name of an authorized signer without permission. The referral further notes a check in the amount of \$3,000, drawn on a personal account of Mr. and Mrs. McDougal and dated April 4, 1985, which was made to the order of the "Bill Clinton Campaign Fund". This account allegedly carried an overdrawn balance at the time the check was written which continued for approximately 30 days. Ref. at 11. On the same date a second check in the amount of \$3,000, payable to Madison Guaranty, was drawn against one of the McDougals' business accounts. Ref. at 6. Other than the alleged overdrafts, the significance of these checks to any theory of criminal activity is not clear. In addition, in several instances, the author of the referral alleges that \$15.00 overdraft fees were charged by Madison Guaranty to McDougal accounts but were subsequently cancelled.

The author of the referral also alleges that, "the McDougal's [sic] clearly diverted funds from their [Madison Guaranty] home purchase and improvement loan of \$351,502, funded in 2/85, for other purposes". Ref. at 7. The referral specifically alleges that more than \$100,000 was "diverted" to the repayment of other loans then due from the McDougals to Madison Guaranty. Ref. at 7 and 10. No evidence is offered, however, that any false statement or entry was made by either of the McDougals or Ms. Anspaugh in connection with the home loan or that the improvements to be done on the home were not completed.

D. ALLEGATIONS RELATING TO CLINTONS AND PULBRIGHT

The author of the referral lists President Clinton and Hillary Rodham Clinton as the first two of six "...witnesses who might have information of the suspected violation". Ref. at 18. No factual claims can be found in the referral to support the designation of Mr. or Mrs. Clinton as witnesses.

Other than the campaign contributions, cited above, the referral simply identifies the Clintons as among, "[t]hose who allegedly stood to gain the most from these numerous and questionable inter-account transactions". Ref. at 5 and 17. This claim is based upon the implication by the author of the referral that the Clintons may have invested in one or more real estate ventures undertaken by the McDougals. Ref. at 5. Citing newspaper

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references, the author also speculates concerning a \$25,000 check issued by one of the McDougal entities in March 1985, stating that "...this could have been the time frame in which Whitewater (the McDougal business entity) was conducting transactions regarding the house that was allegedly purchased and subsequently sold by Ms. Clinton". Ref. at 13. No other information regarding this speculation is contained in the referral.

Similarly, several references are found in the referral to former Senator J. William Fulbright as a principal of a corporation named "Earth Movers, Inc." Ref. at 7-8, 12 and 14. The referral describes two checks drawn against McDougal accounts in April and May, 1985, totalling \$50,000, which were made or endorsed to the order of Earth Movers, Inc. One of these checks, in the amount of \$30,000, was issued by one of the McDougal entities to James McDougal, endorsed by McDougal to Earth Movers, then used by Earth Movers to purchase a Madison Guaranty cashier's check. The referral states that the \$30,000 cashier's check had not been located. Other than creating or increasing overdrafts in the subject accounts, facts suggesting the significance of these checks or the implied involvement of Fulbright in the McDougals' financial affairs are not provided in the overdraft.

E. ANALYSIS

The referral provides substantial factual support for the assertion that Mr. and Mrs. McDougal's conduct may have constituted a breach of fiduciary duty, abuse of position, and self-dealing. The referral does not provide, however, factual allegations sufficient to establish the elements of any of the criminal statutes used in the prosecution of bank fraud cases (18 U.S.C. §§ 215, 656, 657, 1005, 1006, 1014, 1344 or 1956).

The author of the referral, for example, repeatedly alleges "check kiting" on the part of the McDougals. Check kiting involves the use of accounts at two or more financial institutions to obtain interest-free loans by taking advantage of the time required to complete the check-clearing process. The conduct described in the referral, however, is almost fully limited to the issuance and deposit of checks, drawn on accounts with insufficient funds, within Madison Guaranty. While the issuance of such "bad checks" may constitute a violation of state law, it is generally outside the scope of Federal prosecution.

Moreover, the referral does not include allegations of conduct suggesting a level of criminal intent necessary to satisfy that element of any of the principal Federal bank fraud statutes. Misapplication of funds, (18 U.S.C. §§ 656 or 657), limited to bank insiders, requires that the act be done "willfully", defined as

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voluntarily and purposely, with the specific intent to disobey or disregard the law. Fifth Circuit Pattern Jury Instructions at 51. The general bank fraud statute (18 U.S.C. § 1344) requires that a scheme or artifice be executed in an effort to defraud the institution "knowingly", defined as voluntarily or intentionally, not because of mistake or accident. Fifth Circuit Pattern Jury Instructions at 49. The false entry statutes (18 U.S.C. §§ 1005 and 1006), also limited in scope to bank insiders, require that the false entry be made "with intent to defraud" the financial institution, defined as the intent to cheat or deceive the bank. Fifth Circuit Pattern Jury Instructions at 130.

The absence of facts establishing criminal intent on the part of the McDougals argues persuasively against the initiation of a criminal investigation. Further, the referral does not claim that any specific loss to the institution resulted from the McDougal's checking account activity. Ref. at 19. The payment of checks drawn against deficient balances and the waiver of overdraft fees are common, if improper, accommodations regularly extended by banks to substantial customers. The referral does not allege that this account activity was not correctly reflected on the books and records of Madison Guaranty or in reported to Federal regulatory agencies.

It should also be noted that James B. McDougal was apparently indicted, tried and acquitted in 1988 or 1989 in connection with his involvement with Madison Guaranty. Ref. at 2; Letter from Charles A. Banks, United States Attorney, to Don R. Pettus, Special Agent in Charge, dated October 16, 1992. No details relating to the previous prosecution of McDougal have been provided.

Finally, no facts can be identified to support the designation of President Bill Clinton, Hillary Rodham Clinton or Governor Jim Guy Tucker as material witnesses to the allegations made in the criminal referral.

P. RECOMMENDATION

Based solely upon available information, and in light of applicable law and current Fraud Section standards for prosecution, the conduct of James B. McDougal, Susan H. McDougal and Lisa Anspaugh as described in the criminal referral does not appear to warrant the initiation of a criminal investigation.

FBI

TRANSMIT VIA:

☒ Teletype
☐ Facsimile
☐ AIRTEL

PRECEDENCE:

☒ Immediate
☐ Priority
☐ Routine

CLASSIFICATION

☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
☒ UNCLAS

Date 10/7/92

FM FBI LITTLE ROCK (29-0)

TO DIRECTOR FBI/IMMEDIATE/

BT

UNCLAS

CITE: //3390//

PASS: WCC SECTION, FIF UNIT, SSA KEVIN KENDRICK.

SUBJECT: MADISON GUARANTY SAVINGS AND LOAN; FIF;

OO: LITTLE ROCK.

RE TELCALLS FROM SSA KEVIN KENDRICK, FBIHQ, TO SSA STEVEN D. IRONS, LITTLE ROCK, OCTOBER 6 AND 7, 1992; FACSIMILE TRANSMISSION FROM SSA IRONS TO SSA KENDRICK, OCTOBER 6, 1992; AND LITTLE ROCK AIRTEL TO FBIHQ, AUGUST 26, 1992, CAPTIONED "FINANCIAL INSTITUTION FRAUD AND FAILURE MATTERS; FINANCIAL INSTITUTION REFORM, RECOVERY, AND ENFORCEMENT ACT OF 1989 (FIRREA) AND CRIME CONTROL ACT OF 1990 (CCA) RESOURCES."

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Approved: _____ Original filename: SS0001W.281 (2)

Time Received: _____ Telprep filename: _____

MRI JULIAN DATE _____ ISN _____

FBI-00000986

PAGE 2 LR (28-0) UNCLAS

THE RESOLUTION TRUST CORPORATION (RTC) PROVIDED A CRIMINAL REFERRAL FROM ITS KANSAS CITY, MISSOURI, OFFICE TO FBI, LITTLE ROCK, CONCERNING ACTIVITY THAT OCCURRED AT MADISON GUARANTY SAVINGS AND LOAN (MGSL) BETWEEN DECEMBER, 1984, AND MAY, 1985. RTC SIMULTANEOUSLY FURNISHED A COPY OF THE SAME REFERRAL TO THE UNITED STATES ATTORNEY'S OFFICE (USAO), EASTERN DISTRICT OF ARKANSAS (EDAR). THE EXHIBITS REFERENCED IN THE REFERRAL WERE PROVIDED TO THE USAO, EDAR, BY RTC AND HAVE NOT BEEN REVIEWED BY LITTLE ROCK FBI. BY REFERENCED AUGUST 26, 1992, AIRTEL, LITTLE ROCK ADVISED OF ITS ANTICIPATED RECEIPT OF THE MGSL REFERRAL, INCLUDING GENERAL DETAILS OF THE CRIMINAL ACTIVITY ALLEGED AND EXPECTED REFERENCES TO BILL AND HILLARY CLINTON AND JAMES AND SUSAN MC DOUGAL.

THE FOLLOWING INDIVIDUALS WERE IDENTIFIED IN THE REFERRAL AS PERSONS SUSPECTED OF CRIMINAL ACTIVITY:

JAMES B. MC DOUGAL

SUSAN H. MC DOUGAL (WIFE OF JAMES MC DOUGAL)

LISA ANSPAUGH

FBI-DOUGLAS

DOUGLAS

PAGE 3 LR (29-0) UNCLAS

THE FOLLOWING PERSONS WERE IDENTIFIED BY RTC AS BEING POSSIBLE WITNESSES TO THE SUSPECTED CRIMINAL ACTIVITY:

BILL CLINTON

HILLARY RODHAM CLINTON

JIM GUY TUCKER (LIEUTENANT GOVERNOR - ARKANSAS)

STEPHEN A. SMITH

J. W. FULBRIGHT (FORMER ARKANSAS SENATOR)

GREG YOUNG

FURTHER IDENTIFIED BY RTC AS PERSONS POSSIBLY HAVING KNOWLEDGE OF VALUE TO ANY INVESTIGATION CONDUCTED WERE:

KIRBY RANDOLPH

R. D. RANDOLPH

BONNIE CROCHERON

CHARLES E. JAMES

RTC FURTHER STATES IN ITS REFERRAL THE AMOUNT OF LOSS AS A RESULT OF THE ACTIVITY FORMING THE BASIS OF THE REFERRAL IS "UNKNOWN" AND "THE ACTIVITIES IDENTIFIED AND ALLEGED WITHIN THIS REFERRAL COULD HAVE CONTRIBUTED TO THE FAILURE OF THE INSTITUTION." NONE OF THE MULTITUDE OF EVENTS DESCRIBED WAS SPECIFICALLY IDENTIFIED AS RESULTING IN A LOSS TO THE

FBI-00000988

*PAGE 4 LR (29-0) UNCLAS

INSTITUTION, AND THEIR CONTRIBUTION TO THE EVENTUAL FAILURE OF MGSL IS NOT IDENTIFIED.

IN LITTLE ROCK INVESTIGATION DOCUMENTED BY FILE 290-2549 (CLOSED), JAMES MC DOUGAL, JIM HENLEY, AND DAVID HENLEY WERE INDICTED BY A FEDERAL GRAND JURY IN THE EDAR ON NOVEMBER 20, 1989, ON VARIOUS BANK FRAUD CHARGES RELATED TO THEIR ACTIVITIES AT MGSL. JOHN LATHAM PLED GUILTY TO AN INFORMATION CHARGING HIM WITH BANK FRAUD AT MGSL ON FEBRUARY 16, 1990. TRIAL OF THE THREE INDICTED DEFENDANTS WAS HELD MAY 29, 1990, THROUGH JUNE 7, 1990. THE PRESIDING JUDGE MADE A DIRECTED VERDICT OF ACQUITTAL ON DAVID HENLEY, AND THE JURY RETURNED A VERDICT OF NOT GUILTY ON ALL COUNTS ON MC DOUGAL AND JIM HENLEY. THE GIST OF THE CASE WAS THAT MC DOUGAL ENRICHED HIMSELF THROUGH LAND "FLIPS" AND RELATED REAL ESTATE DEVELOPMENT ACTIVITIES FINANCED BY MGSL, WHICH HE EFFECTIVELY CONTROLLED.

IT IS NOTED MC DOUGAL IS DESCRIBED AS A DIAGNOSED MANIC DEPRESSIVE AND HIS PSYCHOLOGICAL STATE WAS PART OF HIS DEFENSE. IT IS ALSO NOTED LATHAM ADMITTED TO FALSIFYING INTERNAL MGSL DOCUMENTS TO DECEIVE FEDERAL EXAMINERS. IN

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K2K000001

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ADDITION, ANOTHER POTENTIAL WITNESS IDENTIFIED BY RTC, BONNIE CROCHERON, TESTIFIED IN ANOTHER LITTLE ROCK MATTER [REDACTED]

[REDACTED] AS A RECORDS CUSTODIAN FOR A FINANCIAL INSTITUTION.

1 ALTHOUGH SHE HAD NO REASON TO LIE, SHE DID SO TO A FEDERAL GRAND JURY CONCERNING HER UNEXPLAINED ALTERATION OF RECORDS REQUESTED BY THE GRAND JURY. SHE WAS NOT CHARGED DUE TO THE PERCEPTION BY THE ASSISTANT UNITED STATES ATTORNEY THAT CROCHERON WAS NOT IN FULL CONTROL OF HER ACTIONS, POSSIBLY DUE TO MENTAL IRREGULARITIES.

THE LENGTHY REFERRAL REFERS TO THE GENERAL AND SPECIFIC ASSOCIATIONS BETWEEN NUMEROUS INDIVIDUALS AND THEIR ALLEGED PARTICIPATION OR PASSIVE APPROVAL IN UNAUTHORIZED LOANS AND CHECK KITING. THE RTC REFERRAL CLEARLY INDICATES A STRONG BELIEF THE SIGNATURES ON CHECKS AND LOAN DOCUMENTS PERTINENT TO THE REFERRAL ARE BELIEVED TO BE FORGED OR "UNAUTHORIZED." IT FURTHER DESCRIBES SOME OF THE COMPANIES LISTED ON PAGE 5 AS SHELLS WHOSE ONLY ACTIVITY WAS TO SERVE AS VEHICLES FOR THE ALLEGED ILLEGAL ACTIVITY. THE ANALYSIS CITED IN THE LAST TWO PARAGRAPHS OF PAGE 5 CLEARLY INDICATES PROBABLE CHECK KITING ACTIVITY. WHILE THE REFERRAL'S STATED SUSPICION THAT THE

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*PAGE 6 LR (19-8) UNCLAS

ACTIVITY WAS FOR THE BENEFIT OF THE MC DOUGALS, THE FURTHER SUPPOSITION THAT OTHER PERSONS BENEFITTED DOES NOT APPEAR TO BE FACTUALLY SUPPORTED BY THE DETAILS THAT FOLLOW WITHIN THE REFERRAL. IN ADDITION TO THE ALLEGED CHECK KITEING, THE MC DOUGALS ARE ALLEGED TO HAVE DIVERTED THE PROCEEDS OF THEIR MGSL HOME PURCHASE AND IMPROVEMENT LOAN. AS CHARGED IN THE TRIAL OF MC DOUGAL AND ALLEGED BY THE ACTIVITY IN THE REFERRAL, MC DOUGAL WAS LIVING FAR BEYOND HIS LEGITIMATE MEANS AND ENGAGED IN FINANCIAL IMPROPRIETIES AT MGSL AND OTHER COMPANIES IN ORDER TO FURTHER ENRICH HIMSELF AND AVOID DETECTION.

THE REFERRAL ALSO NOTES (PAGE 7) THE MGSL BOARD OF DIRECTORS WAS AWARE OF THE TOTAL MGSL OVERDRAFT SITUATION AS REFLECTED IN ITS OCTOBER, 1985, MINUTES AND VOTED TO CALL IT "AN INVESTMENT IN SERVICE CORPORATION."

THE ACTIVITIES OF MC DOUGAL AS THEY MAY HAVE INVOLVED BILL OR HILLARY CLINTON ARE RELATED TO WHITEWATER DEVELOPMENT CORPORATION, INC. (WWD). JAMES AND SUSAN MC DOUGAL AND BILL AND HILLARY CLINTON WERE THE PARTNERS IN WWD. PAGE 7, PARAGRAPH 4, AND PAGE 8, PARAGRAPHS 2 AND 3, DISCUSS THE

FBI-00000991

RECEIVED

PAGE 7 LR (29-0) UNCLAS

CHECK-KITING ACTIVITY INVOLVING THE ~~END~~ ACCOUNT AT MGS. THE CLINTONS ARE NOT MENTIONED AS MAKING OR ENDORSING ANY CHECKS, AND, IN FACT, IT IS ALLEGED IN THE REFERRAL THE SIGNATURE OF JAMES MC DOUGAL WAS FORGED OR SIGNED BY ANSPAUGH, OR POSSIBLY SUSAN MC DOUGAL. AS STATED IN THE LAST TWO SENTENCES OF THE REFERRAL, "ALTHOUGH CIRCUMSTANCES POINT TO THE PROBABILITY THAT SOME OR ALL OF HIS BUSINESS PARTNERS WERE AWARE OF THE ACTIVITY TAKING PLACE WITHIN THE WHITEWATER PARTNERSHIP AND CORPORATE CHECKING ACCOUNTS, THERE IS INSUFFICIENT EVIDENCE AT THIS TIME TO PROVE THAT THEY HAD KNOWLEDGE. CONSEQUENTLY, THESE INDIVIDUALS WILL APPEAR ON THE LIST OF WITNESSES CONTAINED AT THE ~~END~~ OF THIS REFERRAL." THE ~~"WITNESSES"~~ AND "BUSINESS PARTNERS" REFERRED TO ARE BILL AND HILLARY CLINTON. IT IS THE OPINION OF LITTLE ROCK FBI AND THE UNITED STATES ATTORNEY AND FIRST ASSISTANT, EDAR, THAT THERE IS INDEED INSUFFICIENT EVIDENCE TO SUGGEST THE CLINTONS HAD KNOWLEDGE OF THE CHECK-KITING ACTIVITY CONDUCTED BY MC DOUGAL OR ANSPAUGH. THE EARLIER MENTION OF A CAMPAIGN CONTRIBUTION TO THE GUBERNATORIAL CAMPAIGN ALSO DREW NO NEXUS SUGGESTING KNOWLEDGE OR INVOLVEMENT BY THE CLINTONS. AGAIN, ON PAGE 9,

FBI-00000992

KBR000001

^PAGE 8 LR (29-0) UNCLAS

PARAGRAPH 4, OF THE REFERRAL, RTC ADVISES THERE IS NOT SUFFICIENT EVIDENCE AT THE PRESENT TIME TO PROVE KNOWLEDGE BY PERSONS LISTED AS WITNESSES IN THE REFERRAL. LITTLE ROCK NOTES KNOWLEDGE BY, OR ASSISTANCE FROM, THE LISTED WITNESSES IS NOT ONLY NOT INDICATED, IT WAS NOT NECESSARY FOR MC DOUGAL/ANSPAUGH TO ADVISE OR INCLUDE THE WITNESSES IN THE SCHEME.

BEGINNING ON PAGE 12 OF THE REFERRAL, SPECIFIC TRANSACTIONS CONCERNING WWD ARE DESCRIBED TO THE EXTENT THE NATURE WAS DISCERNIBLE FROM MGSL RECORDS BY THE RTC. AT THE BOTTOM OF PAGE 13, THE REFERRAL MAKES REFERENCE AS A "NOTE" THE ALLEGATIONS MADE IN NEWSPAPER ARTICLES CONCERNING THE PURCHASE AND SALE OF A HOUSE BY WWD ON BEHALF OF HILLARY CLINTON. THE REFERRAL RECOMMENDS A COURSE OF ACTION BY THE GOVERNMENT, I.E., THE REVIEW OF THE RECORDS OF OZARKS REALTY AND WWD TO DETERMINE IF WWD CHECK NUMBER 137, MARCH 22, 1985, WAS INVOLVED IN THE TRANSACTION. IT IS NOTED BY LITTLE ROCK THE CHECK IN QUESTION WAS ALLEGEDLY SIGNED BY ANSPAUGH IN THE NAME OF JAMES B. MC DOUGAL. THE AUTHOR OF THE REFERRAL IDENTIFIES ANSPAUGH AS THE PROBABLE SIGNER BASED ON HER OWN

FBI-00000993

PAGE 9 LR (29-0) UNCLAS

OPINION BASED ON OTHER MGSL WRITING SAMPLES. A DEPOSIT FOR \$30,000 LISTED AS BEING PROCESSED APRIL 30, 1985, TO WWD CAME FROM MADISON FINANCIAL AND APPEARS TO RELATE TO EFFORTS TO COVER PREVIOUS OVERDRAFTS IN THE WWD ACCOUNT. AT THE BOTTOM OF PAGE 18 OF THE REFERRAL, KIRBY RANDOLPH IS IDENTIFIED AS A FORMER RECEPTIONIST AT MGSL WHO RECEIVED ALL MONTHLY STATEMENTS OF ALL COMPANIES, WHICH IS UNDERSTOOD BY LITTLE ROCK TO INCLUDE WWD. THAT SITUATION, IF TRUE, FURTHER INDICATES A STRONG POSSIBILITY MC DOUGAL WAS IN CHARGE OF WWD RECORDS, JUST AS HE WAS WITH THE RECORDS OF NUMEROUS OTHER COMPANIES INVOLVED IN THE CHECK KITING, AND DOES NOT SUGGEST THE CLINTONS HAD ACCESS TO CHECKING ACCOUNT STATEMENTS THAT WOULD HAVE REFLECTED THE QUESTIONABLE TRANSACTIONS AT THE TIME. IF THE CLINTONS ARE NOW IN POSSESSION OF SUCH RECORDS AND WERE NOT AWARE OF MC DOUGAL'S PREVIOUS ACTIVITY, THEY MAY NOW BE AWARE MC DOUGAL WAS ENGAGED IN FINANCIAL TRANSACTIONS UTILIZING THE WWD ACCOUNT.

THE NEWSPAPER ARTICLES ALSO MADE A POINT OF A LETTER WRITTEN BY THE ROSE LAW FIRM IN LITTLE ROCK (HILLARY CLINTON IS A PARTNER) TO THE ARKANSAS STATE SECURITIES COMMISSION

FBI-00000994

PAGE 10 LP (83-0) UNCLAS

(ASSC), WHICH IS THE STATE ENTITY RESPONSIBLE FOR OVERSEEING FINANCIAL INSTITUTIONS. THE ARTICLE ALLEGED THE LETTER, WHICH MAY HAVE BEEN SIGNED BY HILLARY CLINTON, URGED THE COMMISSIONER OF ASSC TO NOT PURSUE AN EXAMINATION OF MOBL. THE ARTICLE IS NOT CONTAINED IN A LITTLE ROCK FILE.

ON SEPTEMBER 23, 1992, SAC, LITTLE ROCK, AND SUPERVISORY STAFF MET WITH USA TO DISCUSS THIS MATTER. IT WAS THE OPINION OF USA, EDAR, THE INFORMATION CONCERNING THE CHECK KITE WAS OF POSSIBLE INTEREST, WITH ANSPAUGH AS A POSSIBLE TARGET. IT WAS ALSO THE OPINION OF USA THE ALLEGED INVOLVEMENT OF THE CLINTONS IN WRONGDOING WAS IMPLAUSIBLE, AND HE WAS NOT INCLINED TO AUTHORIZE AN INVESTIGATION OR RENDER A POSITIVE PROSECUTION OPINION. IT WAS ALSO NOTED A COMPLETE AND FACTUAL DETERMINATION OF WHAT TRANSPIRED IN ANY FACET OF THE REFERRAL WOULD TAKE SOME TIME. USA, EDAR, OPINED THE CORRECT COURSE OF ACTION WAS FOR HIM TO HAVE LEGAL RESEARCH CONDUCTED ON THE STATUTE OF LIMITATIONS ON THE VARIOUS APPLICABLE BANK FRAUD STATUTES AND TO COMPLETE AN IN-DEPTH ANALYSIS OF THE VOLUMINOUS EXHIBITS ANCILLARY TO THE REFERRAL. ALTHOUGH HE

FBI-00000995

*PAGE 11 LR (29-0) UNCLAS

STATED AN INTENTION TO PROVIDE LITTLE ROCK WITH COPIES OF THE EXHIBITS, NONE HAVE BEEN RECEIVED AS OF INSTANT DATE.

ACCORDINGLY, LITTLE ROCK HAS TAKEN NO INVESTIGATIVE ACTION ON THIS MATTER PENDING A PROSECUTIVE OPINION FROM USA, EDAR. ON OCTOBER 7, 1992, THE FIRST ASSISTANT UNITED STATES ATTORNEY ADVISED THE LITTLE ROCK SQUAD SUPERVISOR THE USA INTENDED TO ADVISE THE DEPARTMENT OF JUSTICE OF THIS MATTER DUE TO ITS SENSITIVE NATURE.

BT

DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
COMMUNICATION MESSAGE FORM

PAGE 3

ADMINISTRATIVE NOTE/ TICKLER COUNT:

ON 9/1/92, THE LITTLE ROCK DIVISION RECEIVED A CRIMINAL REFERRAL FORM FROM THE RTC ALLEGING WIDESPREAD FRAUDULENT CHECK-KITING ACTIVITY, LISTING PRESIDENTIAL CANDIDATE BILL CLINTON AND HIS WIFE, HILLARY, AS POTENTIAL WITNESSES. ON 10/5/92, BUREAU OFFICIALS MET WITH ASSISTANT AG ROBERT MUELLER AND SPECIAL COUNSEL, IRA RAPHAELSON, OF THE DOJ. AAG MUELLER ADVISED THAT DOJ DID NOT HAVE ENOUGH INFORMATION AT THIS TIME TO RENDER ANY KIND OF OPINION AND THAT FBIHQ SHOULD MAKE A DETERMINATION REGARDING AN INVESTIGATIVE COURSE OF ACTION. AAG MUELLER ADDED THAT THIS MATTER SHOULD NOT BE TREATED ANY DIFFERENTLY THAN ANY OTHER SIMILAR RIF INVESTIGATION ADDRESSED BY THE FBI AND DOJ.

2-att'd B.L. KKK:222 8:22 PM 01: 24-2 222 Phone No: 5444

COPY DESIGNATIONS:

- 1 - MR. VERINDER
- 1 - MR. KUBIC
- 1 - MR. DICK
- 1 - MR. KENDRICK

FBI-0000097

Little Rock - 10/5/92

Late 1991
to
Early 1992

SSA requested JEAN LEWIS, RTC, work on preparing referrals for SAVERS and 1st Federal, both failed institutions located in Little Rock. RTC was advised FBI was not interested in referrals on institutions where we had previously had prosecutions as much as we were with institutions which had been unaddressed for some time.

March ?

Newspaper article appeared discussing the Clintons partnership with JIM McDOUGAL in Whitewater Development Corp., and the failure of MADISON GUARANTY. Also mentioned a letter HILLARY or Rose Law Firm wrote to Arkansas Securities Commission asking for no action on some issue concerning MADISON.

Within two weeks

JEAN LEWIS of RTC contacted FBI Little Rock (Aaron) review our investigation. She also examined the records of MADISON, which were stored in the Outlet Mall on I-30 along with records of most of the other failed Arkansas S&Ls (RTC custody). LEWIS advised IRONS she was called off her work on the SAVERS/FIRST FEDERAL referral to work on the allegations in the news article. Either RTC in Washington or regional RTC headquarters in Kansas City had seen the article and asked if RTC had the records of MADISON. When they learned they did, they wanted the CLINTON angle investigated to make sure they hadn't missed something.

Within next few weeks

FBI (IRONS) contacted LEWIS's supervisor to ask if they had discovered something that looked like it would be basis for a referral and CLARK WALTON said yes.

Over next few months RTC (Lewis) apparently advised several AUSAs and FBI employees of what she was working on.

Mid August, 1992

LEWIS advised FBI the referral was almost complete. Her supervisors gave her a deadline 8/31/92 without fail. She advised she gave up a job opportunity in Washington in order to complete the referral, noting she might change the course of history.

FBI-00001526

Around 8/31 FBI talked to LEWIS, who advised she was almost done and would overnight the package when complete.

9/2/92 Referral received from RTC. USA received his copy same date.

Next day or so Spoke to USA who wanted us to take no action until we had time to discuss it due to sensitivity. (Previous conversations that it was coming had occurred)

Next few days RTC began to call and ask what FBI was doing with the referral.

9/9/92 RTC leaves phone message complaining FBI return calls and give status report.

9/20/92 RTC was advised no decision by USA and FBI was not going to be in a position to give status reports when he did.

9/28/92 Lewis of RTC meets with SAs and AUSAs on another case. Prior to she asked me what status of MADISON was. Told her not decided, but meeting was scheduled with USA.

After her meeting she waited for me. She again asked for status and was told she would have to ask USA. She advised her boss, Richard Torrio, kept asking her to try to find out what we were doing. I reminded her of sensitivity and that, even if USA decided to go forward, these cases took longer than a month to determine what was there. She advised everyone above her in RTC was aware of referral and it was approved at Washington before going out. She apologized for asking repeatedly but said her superiors kept telling her to find out what we were doing what we were doing with the case. She was any communication would have to come from the USA and FBI would not even tell her when the meeting to discuss it took place, much less the outcome. Told her to deal directly with USA and cut FBI out. Also observed she and RTC had no reason or need to know. She offered assistance if needed.

9/23/92 FBI and USA meet, no action taken pending further review by USA. FBI-00001527

10/6/92 First Assistant USA advises they are going notify DOJ they received referral. Also

TME 496

advised JEAN LEWIS of RTO now calling him. She called and said she didn't mean to pester him but it was standard to make a followup contact six weeks after any referral to make sure it was received and find out if any clarification or assistance was needed.

Routing Slip
FD-4 (Rev. 8-89)

OTC 001123

Date 11-1-92

FILE # 41

TO: ☐ Director

ATTN:

TITLE

SAC ☐

ASAC ☐

Supv. ☐

Agent ☐

OSA ☐

Boys ☐

Steno ☐

Typist ☐

M ☐

Room ☐

BE:

(initials)

☐ Acknowledge ☐ For Information ☐ Return assignment card

☐ Assign ☐ Reassign ☐ Handle ☐ Return file ☐ Serial

☐ Bring file ☐ Initial & return ☐ Return with action taken

☐ Call me ☐ Leads need attention ☐ Return with explanation

☐ Correct ☐ Mark for indexing ☐ Search and return

☐ Delinquent ☐ Open case ☐ See me ☐ Type

☐ Discontinue ☐ Prepare lead cards ☐

☐ Expedite ☐ Prepare tickler ☐

☐ File ☐ Recharge file ☐ Serial ☐

☐ Send to ☐

Jean Lewis BPC

Have I have turned into a
 local police, just because I write
 one report with high profile names
 or do you plan on calling me back
 before Christmas, Steven???

(816) 968-7237

See reverse side Office

See reverse side

Agencies 101 - 200 000000

MEMORANDUM
OF CALL

Previous adjacent table

TO: IRONIS

YOU WERE CALLED BY ☐ YOU WERE VISITED BY JEAN LEWIS

OR (continued)

PLEASE PHONE ☒ YES ☐ NO ☐ AFTERNOON

816-968-7237

WILL CALL AGAIN ☐ IS WAITING TO SEE YOU

RETURNED - YOUR CALL ☐ WISHES REAFFIRMATION

MESSAGE

1st call
 9-10-92

RECEIVED 02 2818 DATE 9/9/92 TIME 10:05 AM

43110 FAX 3540 NO 4311018

MEMORANDUM OF CALL

6 210 000 181 240 00001

J. Lewis

9-18-92 met w/ STU HARRIS CATHOLIC HALL
 REED STUHS AMOPR
 RICHARD JORDAN WANTS TO KNOW
 BOSSSES WANT TO KNOW
 Refused approved by J.C.

IRA RAPHAELSON N

BOB MEULLER

10/8/92

K Kandrak

- ordinary -

Decision by LR USA

AS to on way will tell us to open case. No overt.
 1 week to review records

OIC 001134

9/18/92

Jean Lewis, RTC, was in office today for Kell meeting with STOLL, HARRIS, CALHOUN, HALL. Prior to she asked me what status of MADISON was. Told her not decided, but meeting scheduled.

After her meeting she waited for me. She again asked for status and was told she would have to ask USA. She advised her boss, Richard Iorio, kept asking her to try to find out what we were doing. I reminded her of sensitivity and that, even if USA decided to go forward, these cases took longer than a month to determine what was there. She advised everyone above her in RTC was aware of referral.

FBI-00001534

JUL 503
JUL 503

United States Attorney

Eastern District of Arkansas

Post Office Box 117

Little Rock, Arkansas 72201

October 15, 1992

(Dictated 10-14-92)

Mr. Don Pettus
 Special Agent in Charge
 Federal Bureau of Investigation
 #1 Financial Center, Suite 100
 Little Rock, AR 72201

Re: RTO Referral No. C0004

Dear Mr. Pettus:

This is a follow-up to my previous meeting with you and my second review of the above referenced referral with supporting documents.

At the time we met, I explained to you my serious reservations about future prosecutions of the individuals involved in the referral. My evaluation of the referral indicates that there is not a prosecutable case capable of being proved beyond a reasonable doubt against any of the witnesses. While participation of some or all of these witnesses certainly suggests poor judgment, possible conflicts of interest or ethical infractions, proving specific intent or knowing criminal conduct would be a prosecutorial burden that could not be carried beyond a reasonable doubt.

The only allegations having any credibility worthy of possible deliberation for investigation exists against Mr. and Mrs. McCougal and Lisa Anspaugh. Even these allegations, combined with Mr. McCougal's previous acquittal, his present mental state along with no prospect of recovering lost monies from the institution have serious negative attributes for a successful prosecution of these insiders.

I am now advised that you have been ordered to do an immediate review to determine if an investigation is warranted. As part of same, you are required to send a prospective proposal for such investigation by Friday, October 16, 1992. Such an order does not apply to this office.

24-C-4956-

However, I do believe it might be helpful to reiterate what I have told you previously. Neither I personally nor this office will participate in any phase of such an investigation regarding the above referral prior to November 1, 1992. You may communicate this orally to officials of the FBI or you should Law-Free Police this part of your report.

FBI-C0001002

Mr. Don Rattus
Page 1

While I do not intend to denigrate the work of RTC, I must opine that after such a lapse of time the insistence for urgency in this case appears to suggest an intentional or unintentional attempt to intervene into the political process of the upcoming presidential election. You and I know in investigations of this type, the first steps, such as issuance of grand jury subpoenas for records, will lead to media and public inquiries of matters that are subject to absolute privacy. Even media questions about such an investigation in today's modern political climate all too often publicly purports to "legitimize what can't be proven."

For me personally to participate in an investigation that I know will or could easily lead to the above scenario and to the possible denial of rights due to the targets, subjects, witnesses or defendants is inappropriate. I believe it amounts to prosecutorial misconduct and violates the most basic fundamental rule of Department of Justice policy. I cannot be a party to such actions and believe that such would be detrimental to the Department of Justice, FBI, this office and to the President of the United States.

In due time, I will be happy to meet with you to discuss a limited examination and possibility of proving some of the allegations regarding Mr. and Mrs. McCougal and Ms. Anspaugh. In the event I conclude that their case should be declined, which at this point is a distinct possibility, the DOJ can certainly override that decision and commit Department of Justice personnel and resources to both the investigation and prosecution of the case.

For your information, in the event I receive any press inquiry from any source whatsoever I am going to refer them to the supervisory officials in the Department of Justice and/or Resolution Trust Corporation.

Thank you.

Best Regards,

Charles A. Banks

CHARLES A. BANKS
United States Attorney

CASHEW

cc:

Floyd Mac Dodson
Executive Assistant U.S. Attorney

FBI-00000000

10TH STORY of Level 1 printed in FULL format.

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The New York Times

March 10, 1992, Tuesday, Late Edition - Final

SECTION: Section A; Page 1; Column 5; National Desk

LENGTH: 1068 words

HEADLINE: THE 1992 CAMPAIGN: White House;
White House 'Funnel' Directs Aid To States With Primaries Nearing

BYLINE: By ROBERT PEAR, Special to The New York Times

DATELINE: WASHINGTON, March 9

BODY:

The favors that President Bush dispensed as he campaigned throughout the South last week were a result of a formal, systematic effort to coordinate the policies and actions of the Federal Government with the political operations of the President's re-election campaign, say Administration officials and campaign workers.

A small group of White House officials, closely supervised by Mr. Bush's chief of staff, Samuel K. Skinner, transmits requests from the campaign to Government agencies. This arrangement is known as "the funnel."

Criticism From Challengers

The benefits of incumbency are not new to office holders, from Presidents to mayors. And in most instances, there is nothing illegal about the use of government largess for political purposes. At the national level, chief executives of both parties have long exploited the powers of the Presidency in election years.

Still, the political use of Government grants has drawn sharp criticism from Mr. Bush's Republican challenger, Patrick J. Buchanan, and from Democrats in Congress.

In this instance, top officials from the campaign and the Administration hold daily meetings to coordinate their efforts. Among those who attend are Mr. Skinner and his deputy, W. Henson Moore; Frederic V. Malek, the manager of Mr. Bush's campaign; Robert M. Teeter, the campaign chairman; Katherine Super, director of Presidential scheduling; Edith E. Holiday, secretary of Mr. Bush's Cabinet, and William Kristol, chief of staff for Vice President Dan Quayle.

Each Government agency has a "campaign contact," a Federal employee who can supply information to the campaign and arrange political speeches and travel by agency officials. Likewise, the White House has agencies review campaign literature for accuracy and consistency with official Administration positions.

Mr. Bush boasts about the fruits of such cooperation, which include Federal money and regulatory actions intended to please voters in politically important states.

The New York Times, March 10, 1992

Last Thursday officials from the Army Corps of Engineers told Gov. Lawton Chiles of Florida that they would agree to help finance a project to restore the natural course of the Kissimmee River, which in the 1970's was diverted into a canal with untold damage to fish and wildlife. Governor Chiles, a Democrat, hailed the agreement as "a tremendous breakthrough in the 20-year effort" to protect the Everglades and rivers feeding into it.

Debby Kilmer, director of the Washington office for the State of Florida, said: "I don't think it's coincidence that it happened this week. The Administration wanted to help Florida, and this is a major issue in the state."

Florida holds primary elections on Tuesday.

Likewise, in a campaign trip through Southern California last month, Mr. Bush announced \$800 million worth of road improvements, sewage treatment projects and other public works to promote economic development along the Mexican border.

Mr. Malek, the Bush campaign manager, knows the benefits and risks of using Federal money to win support for a President's re-election. As an aide to President Richard M. Nixon 20 years ago, Mr. Malek devised a program to improve the Government's "responsiveness" by directing Federal grants and other benefits to important constituencies. Mr. Malek later said that the program, exposed in investigations of the Watergate scandal, was a mistake because it left an impression of impropriety.

Standards of Conduct

In an effort to prevent embarrassment and abuse this year, the Bush-Quayle campaign requires campaign workers to sign standards of conduct. One provision says campaign workers "shall not initiate communications with the White House or any Federal official or employee on behalf of the campaign for any purpose unless specifically authorized to do so by a member of the senior staff after securing legal clearance."

Such contacts are supposed to go through the White House funnel. At the neck of the funnel are Mr. Skinner and Ms. Holiday, who serves as chief liaison to the campaign.

The "campaign contact" at each department is a senior official, usually an assistant secretary, appointed by the President and confirmed by the Senate. Such officials are generally exempt from the Hatch Act, the 1939 law that limits the political activities of Federal employees.

Federal auditors say it is difficult to prove a violation of the law when the money is being used simultaneously for some purpose authorized by Congress.

Administration officials say the dispensing of favors by the White House in the last two months does not reflect an effort to buy votes; rather, they prefer to describe it as an effort to create a politically congenial environment for the President in an election year.

"I've got to brag about something, and you're darn right I'm going to brag about the highway bill and all the jobs that go with it," Mr. Bush said after engineering a windfall of Federal aid for New Hampshire last month.

The New York Times, March 10, 1992

Is It Appropriate?

Representative Ron Wyden, Democrat of Oregon, said recent decisions by the Small Business Administration appeared to be "politically inspired." But Patricia Saiki, head of the agency, insisted the decisions, including new loan guarantees for small businesses, were a response to the recession, not to the political calendar.

David M. Ifshin, general counsel for the campaign of Gov. Bill Clinton of Arkansas, a Democratic candidate for President, said, "It is hard to define the line between what's appropriate and what's inappropriate in the use and timing of Government grants."

It is difficult to show how politics influenced a particular decision because "the mechanisms of investigation are in the hands of the executive branch itself," said Mr. Ifshin, who also served as general counsel for Walter F. Mondale's Presidential campaign in 1984.

The Federal Election Commission has issued detailed rules requiring campaign committees to pay for campaign-related travel by public officials. But the rules give no indication of how much interaction is allowed between a campaign and the Government.

Roger M. Witten, an expert on election law who advises Common Cause, the citizens' lobby, argued, "The standards require an exercise of judgment and are subject to abuse, given the incentives to conserve campaign dollars by substituting Government money when that can arguably be justified."

GRAPHIC: Chart: "Delegate Tally" -- Current breakdown of Presidential preference of delegates to the national political conventions as compiled by The New York Times.

DEMOCRATS

Brown	57
Clinton	298
Harkin	86
Kerrey	27
Tsongas	144
Uncommitted	236
Total delegate votes	4,288
Needed to nominate	2,145

REPUBLICANS

Buchanan	20
Bush	206
Uncommitted	5
Total	2,209
Needed	1,105

Totals are through Monday. Preferences are based on state laws, party rules and projections from early results in caucus states except Washington. The Democratic total includes preferences of super delegates, who include Democratic National Committee members, governors and former elected officials. They have

The New York Times, March 10, 1992

been reached by telephone since Feb. 19. Members of Congress who are also super delegates have not yet been chosen. (pg. A21)

LANGUAGE: ENGLISH

LOAD-DATE: March 10, 1992

Public Papers of the Presidents

June 4, 1990

CITE: 26 Weekly Comp. Pres. Doc. 897

LENGTH: 216 words

HEADLINE: Appointment of Edith E. Holiday as Assistant to the President and Secretary to the Cabinet

BODY:

The President has appointed Edith E. Holiday to be Assistant to the President and Secretary of the Cabinet. She would succeed David Bates.

For the past 21 months Ms. Holiday has served in the Treasury Department, most recently as General Counsel, 1989-1990. Prior to this, she served as Assistant Secretary of the Treasury for Public Affairs and Public Liaison and Counselor to the Secretary, 1988-1989; chief counsel and national financial and operations director for the Bush-Quayle 1988 Presidential campaign; director of operations for George Bush for President, 1987-1988; and special counsel for the Fund for America's Future, 1985-1987. In addition, Ms. Holiday has served as Executive Director for the President's Commission on Executive, Legislative, and Judicial Salaries, 1984-1985; an attorney with the law firm of Dow Lohnes and Albertson, 1983-1984; an attorney with the law firm of Reed Smith and McClay, 1977-1983; and legislative director for United States Senator Nicholas F. Brady, 1982.

Ms. Holiday graduated from the University of Florida (B.S., 1974; J.D., 1977). She was born in Middletown, OH. Ms. Holiday is married to Terrence B. Adamson; has one child, Kathryn, and one stepson, Terrence Morgan Adamson; and resides in Atlanta, GA, and Washington, DC.

LANGUAGE: ENGLISH

DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
COMMUNICATION MESSAGE FORM

TRANSMIT VIA:

☒ Teletype

DATE: 10/9/92

PAGE 1 OF 2

PRECEDENCE:

☐ Immediate
☒ Priority
☐ Routine

CLASSIFICATION:

☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
☒ UNCLAS

FM DIRECTOR FBI

TO FBI LITTLE ROCK/PRIORITY/29A (29A LR-2459)

BT

UNCLAS

CITE: //0624//

SUBJECT: JAMES B. MCDUGAL; SUSAN H. MCDUGAL; LISA ANSPAUGH;

UNSUB(S); MADISON GUARANTY SAVINGS AND LOAN, LITTLE ROCK,

ARKANSAS; RIF; 00: LITTLE ROCK.

RE TELCAL FROM SSA KEVIN B. KENDRICK, FBIHQ, TO SSA STEVE IRONS, LITTLE ROCK, 10/8/92, AND TELETYPE FROM LITTLE ROCK TO THE BUREAU, 10/7/92.

AS DISCUSSED IN RETELCALL, AN RIF INVESTIGATION IS WARRANTED IN CAPTIONED MATTER. THEREFORE, LITTLE ROCK SHOULD INITIATE A LIMITED INVESTIGATION AIMED AT DETERMINING THE EXTENT OF

29A LR-2459-3

FOR COMM CENTER USE ONLY

NOTE: Copy Designations Are On The Last Page Of This Teletype!!!

Approved By

JRI/JUL

Transmitted

ISN

043

2323

OCT 9 1992

FBI-00000523

DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
COMMUNICATION MESSAGE FORM

^PAGE 2 UNCLAS

VIOLATIONS AS ALLEGED IN THE RESOLUTION TRUST CORPORATION (RTC)
CRIMINAL REFERRAL FORM, DATED 9/1/92.

LITTLE ROCK SHOULD OBTAIN FROM THE UNITED STATES ATTORNEY
AND REVIEW THE DOCUMENTS REFERENCED IN THE CRIMINAL REFERRAL.
IN ORDER TO PROTECT THE IDENTITIES OF PASSIVE INVESTORS AND/OR
WITNESSES, LITTLE ROCK SHOULD NOT CONDUCT ANY OVERT INVESTIGATION
SUCH AS WITNESS INTERVIEWS OR SERVING OF GRAND JURY SUBPOENAS AT
THIS TIME. IN ADDITION, THE DOCUMENTS SHOULD BE AFFORDED
APPROPRIATE SECURITY SO AS TO MAINTAIN THE PRIVACY OF THE
WITNESSES.

LITTLE ROCK IS REQUESTED TO SUBMIT RESULTS OF THIS LIMITED
INVESTIGATION AND ANTICIPATED INVESTIGATIVE AND PROSECUTIVE PLANS
BY COB, 10/16/92, TO FBIHQ, WCCS, FIFU, ATTENTION : SSA KEVIN B.
KENDRICK.

BT

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DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
COMMUNICATION MESSAGE FORM

PAGE 3

ADMINISTRATIVE NOTE/TICKLER COUNT:

ON 9/1/92, THE LITTLE ROCK DIVISION RECEIVED A CRIMINAL REFERRAL FORM FROM THE RTC ALLEGING WIDESPREAD FRAUDULENT CHECK-KITING ACTIVITY, LISTING PRESIDENTIAL CANDIDATE BILL CLINTON AND HIS WIFE, HILLARY, AS POTENTIAL WITNESSES. ON 10/8/92, BUREAU OFFICIALS MET WITH ASSISTANT AG ROBERT MUELLER AND SPECIAL COUNSEL, IRA RAPHAELSON, OF THE DOJ. AAG MUELLER ADVISED THAT DOJ DID NOT HAVE ENOUGH INFORMATION AT THIS TIME TO RENDER ANY KIND OF OPINION AND THAT FBIHQ SHOULD MAKE A DETERMINATION REGARDING AN INVESTIGATIVE COURSE OF ACTION. AAG MUELLER ADDED THAT THIS MATTER SHOULD NOT BE TREATED ANY DIFFERENTLY THAN ANY OTHER SIMILAR FIF INVESTIGATION ADDRESSED BY THE FBI AND DOJ.

Drafted By: KBK:amp Room/TL #: 3841/231 Phone No: 5656

COPY DESIGNATIONS:

- 1 - MR. VERINDER
- 1 - MR. KUBIE
- 1 - MR. DICK
- 1 - MR. KENDRICK

FBI-00000525

RECEIVED
TELETYPE UNIT

16 OCT 92 10 21Z

FEDERAL BUREAU
OF INVESTIGATION

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FM FBI LITTLE ROCK (29-0) (SQ 3)

TO DIRECTOR FBI/IMMEDIATE/

BT

UNCLAS

CITE: //3390//

PASS: ASST DIRECTOR LARRY A POTTS.

SUBJECT: , JAMES B. MC DOUGAL; ET AL; UNSUB(S); MADISON
GUARANTY SAVINGS AND LOAN, LITTLE ROCK, ARKANSAS; FIF;
OO: LITTLE ROCK.

RE TELETYPE FROM DIRECTOR TO LITTLE ROCK, OCTOBER 9,
1992, CAPTIONED AS ABOVE AND TELCAL FROM SAC, LITTLE ROCK, TO
FBIHQ, OCTOBER 9, 1992.

AS DISCUSSED IN REFERENCED TELCAL, LITTLE ROCK WILL NOT
INITIATE AN INVESTIGATION OF CAPTIONED MATTER.

DURING THE PERIOD OCTOBER 9-16, 1992, UNITED STATES

FBI-00000526

PAGE TWO DE FBILR 0001 UNCLAS

ATTORNEY (USA), EASTERN DISTRICT OF ARKANSAS (EDA) AND WHITE-COLLAR CRIME SUPERVISOR AND FINANCIAL ANALYST, FBI, LITTLE ROCK, CONDUCTED AN EXTENSIVE REVIEW OF THE REFERRAL AND ALL OF THE APPROXIMATELY 300 EXHIBITS FURNISHED TO USA BY RESOLUTION TRUST CORPORATION (RTC). USA CONCURS THERE IS ABSOLUTELY NO FACTUAL BASIS TO SUGGEST CRIMINAL ACTIVITY ON THE PART OF ANY OF THE INDIVIDUALS LISTED AS WITNESSES IN THE REFERRAL. USA FEELS THE LIMITED DATA FURNISHED MAY INDICATE CRIMINAL ACTIVITY ON THE PART OF CAPTIONED SUBJECTS, JAMES AND SUSAN MC DOUGAL, AND LISA ANSPAUGH. HOWEVER, USA IS HOLDING PROVISION OF A PROSECUTIVE OPINION REGARDING THOSE SUBJECTS IN ABEYANCE.

AS DISCUSSED IN PREVIOUS COMMUNICATIONS, JAMES MC DOUGAL WAS PREVIOUSLY INDICTED FOR FRAUD RELATED TO THE FAILURE OF MADISON GUARANTY SAVINGS AND LOAN AND ACQUITTED BY JURY. HE CURRENTLY HAS NO ASSETS TO PURSUE, IS DRAWING DISABILITY INCOME AND IS BELIEVED TO RESIDE IN A TRAILER OWNED BY A FRIEND. WHILE THE AVAILABLE FACTS INDICATE ELEMENTS OF ONE OR MORE FEDERAL VIOLATIONS MAY EXIST, USA IS CONSIDERING THE LIKELIHOOD OF PROVING SUCH VIOLATIONS AND THE MANPOWER OPPORTUNITY COST TO OTHER PRIORITY INVESTIGATIONS OF PURSUING

PAGE THREE DE FBILR 0001 UNCLAS

MC DOUGAL A SECOND TIME.

ACCORDINGLY, LITTLE ROCK REMAINS IN A NON-INVESTIGATIVE POSTURE REGARDING THIS MATTER AND WILL NOT CONDUCT ANY INVESTIGATION WITHOUT THE CONCURRENCE OF USA AND A POSITIVE PROSECUTIVE OPINION.

LITTLE ROCK DIVISION PREVIOUSLY IDENTIFIED TWO FAILED LITTLE ROCK SAVINGS AND LOANS, SAVERS SAVINGS ASSOCIATION AND FIRST SAVINGS OF ARKANSAS, TO RTC AS HAVING SIGNIFICANT CRIMINAL POTENTIAL. LOSSES SUFFERED WERE APPROXIMATELY \$900 MILLION AT FIRST SAVINGS OF ARKANSAS AND \$650 MILLION AT SAVERS SAVINGS. REFERRALS HAVE NOT BEEN RECEIVED FOR THESE INSTITUTIONS. IT IS NOTED THE LOSS AT MADISON GUARANTY WAS \$47.7 MILLION. IT IS REQUESTED FBIHQ CONTACT RTC AND REQUEST IT EXPEDITIOUSLY ADDRESS PROVIDING REFERRALS ON SAVERS AND FIRST FEDERAL, NEITHER OF WHICH HAVE BEEN THE SUBJECT OF INVESTIGATION OR INDICTMENTS AND WHICH ARE BELIEVED TO HAVE MUCH GREATER PROSECUTIVE POTENTIAL THAN MADISON GUARANTY SAVINGS AND LOAN. THIS WILL REPEAT A REQUEST MADE BY LITTLE ROCK TO THE REGIONAL RTC OFFICE IN EARLY 1992.

BT

#0001

FBI-00000528

1ST STORY of Level 1 printed in FULL format.

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The Washington Post

October 5, 1992, Monday, Final Edition

SECTION: FIRST SECTION; PAGE A7

LENGTH: 304 words

HEADLINE: Clinton's Passport Files Missing Several Pages;
FBI Reportedly Probes Possible Tampering

SERIES: Occasional

BYLINE: Gary Lee, Washington Post Staff Writer

BODY:

The FBI is investigating whether someone tampered with Democratic presidential nominee Bill Clinton's passport files at the State Department, according to the current issue of Newsweek magazine.

The investigation began after State Department officials, responding to Freedom of Information Act requests by several news organizations to see Clinton's passport records from the 1960s and 1970s, found "that several pages seemed to have been ripped out," the magazine reported.

Whether or when the tampering occurred, or who did it, is unclear. Officials at the State Department and the FBI declined to comment on the report yesterday.

The news organizations apparently were investigating Clinton's draft record, which has been an issue in the campaign, and his days as a student in England as a Rhodes scholar in 1969 and 1970. While he was a student there he took a 40-day trip during his winter vacation, visiting Denmark, Norway, Sweden, Finland, the Soviet Union and Czechoslovakia.

The State Department visa office keeps records of requests for new passports or changes in citizenship. Access to the files is carefully restricted, the department said.

Clinton aides said they had no knowledge of any tampering with the candidate's files at the State Department.

"We certainly didn't have anything to do with it," said Clinton spokesman George Stephanopoulos, declining further comment on the report.

Another aide pointed out that the GOP officials who have been in charge at the State Department for the past 12 years would have had better access to the files than would Democrats.

But a Bush campaign aide said Republican campaign officials knew nothing and denied any implication of wrongdoing.

"We know nothing about the files except what we have seen in news reports," said spokeswoman Torie Clarke.

U.S. Department of Justice

United States Attorney
Eastern District of ArkansasEUSA
RECEIVED

Post Office Box 1229

1993 FEB -1 P 3:35 Little Rock, Arkansas 72203

OFFICE OF LEGAL COUNSEL

January 27, 1993

Ms. Donna Henneman
Office of Legal Counsel
Executive Office for U.S. Attorneys
Main Justice Building
Washington, D.C. 20530

Re: RTC Referral C0004

Dear Ms. Henneman:

This is a follow-up to my letter of October 16, 1992, which I believe was previously sent to you. If not, ~~a copy is enclosed.~~

RTC officials have again contacted this office following an FOIA request upon them by some member of the Little Rock media.

RTC's contact with us was to determine the position of this office regarding their response to the FOIA request. Specifically, RTC wanted to know if a production of referral documents would affect our investigation.

The purpose of this letter is to clarify any possible confusion.

First, we have no investigation ongoing. Second, we have informed RTC of this and further suggested they should follow the appropriate FOIA law in responding to the request. I believe this RTC inquiry makes it appropriate for me to advise you as to the present status of the above referral.

Our position as related in the enclosed letter of October 16 is self-explanatory. As previously indicated, it seems prudent that a limited preliminary investigation of allegations pertinent to Mr. and Mrs. McDougal and Ms. Anspaugh should be considered. The taking of IQ2's from these individuals should determine whether there is merit to substantiate further investigation.

Ms. Donna Henneman
Page 2
January 27, 1993

I believe this office has a conflict of interest in conducting an investigation or presenting an indictment against these individuals. Previous prosecution of Mr. McDougal and two other defendants resulted in a not guilty verdict. Several allegations suggesting political prosecutions were made during the trial. These were patently false but a second investigation/prosecution could easily give the appearance of inappropriate motivation by this office.

I would appreciate and expect that any decision of investigation, indictment, prosecution or declination be the responsibility of the Department of Justice. I have resigned my position as United States Attorney effective March 1, 1993, and am separating service with the Department of Justice that date. I will be happy to transfer the RTC workpapers or make them available for your review.

Best Regards,

Charles A. Banks
CHARLES A. BANKS
United States Attorney

CB/bw



U.S. Department of Justice
Executive Office for United States Attorneys

Office of the Director

Washington, D.C. 20530

Margis

DATE: June 8, 1993

TO: Douglas N. Frazier
Associate Deputy Attorney General

FROM: Deborah C. Westbrook
Legal Counsel

DCW

Pursuant to our conversation of June 7, 1993, attached is a memorandum dated March 19, 1993, regarding the recusal of the United States Attorney's office for the Eastern District of Arkansas on a Resolution Trust Corporation referral. Please advise this office of your decision regarding this matter. If you have any questions, you can reach me at 514-4024.

Attachment

*Per Doug 6/23
sent fruit
district
decision
suggested*

*Doug - Please
Brief me on
Background -
M 6-9-93*

...006675

6/9/93

U.S. Department of Justice

Criminal Division

EOUSA
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041117627

OFFICE OF LEGAL COUNSEL

Assistant Attorney General

Washington, D.C. 20530

MAR 19 1993

MEMORANDUM

TO: Douglas N. Frazier
Associate Deputy Attorney General

FROM: John C. Keeney *K/SK by LAU*
Acting Assistant Attorney General

SUBJECT: Recusal by the U.S. Attorney's Office for the Eastern District of Arkansas on a Resolution Trust Corporation Referral.

The attached recusal package was forwarded for review from your office on February 18, 1993. We have reviewed the material in the package and have concluded that there is no identifiable basis for recusal by the United States Attorney. Further, we would not question a decision by the United States Attorney to decline further substantive action on the referral. A copy of the Fraud Section's memorandum summarizing our review is attached for your use and, should you decide it is appropriate, for forwarding to the United States Attorney's Office in Little Rock.

Attachments

Records
Section Chron.
Exec. Sect.
Keeney
Ungerson
McDowell
Carver
Branch

000070

DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
COMMUNICATION MESSAGE FORM

TRANSMIT VIA:
☒ Teletype

PRECEDENCE:
☐ Immediate
☐ Priority
☒ Routine

CLASSIFICATION:
☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
☒ UNCLAS

DATE: 10/26/92

PAGE 1 OF 2

FM DIRECTOR FBI

TO FBI LITTLE ROCK/ROUTINE/

BT

UNCLAS

CITE: //0624//

SUBJECT: JAMES B. MCDUGAL; ET AL; UNSUB(S); MADISON GUARANTY SAVINGS AND LOAN, LITTLE ROCK, ARKANSAS; FIF; 00: LITTLE ROCK. REBUTELCALL FROM SSA KEVIN B. KENDRICK, FINANCIAL INSTITUTION FRAUD UNIT, TO SSA STEVE IRONS, LITTLE ROCK, 10/23/92 AND LITTLE ROCK TELETYPE TO FBIHQ, 10/16/92.

REFERENCED LITTLE ROCK TELETYPE REQUESTED FBIHQ CONTACT OFFICIALS AT THE RESOLUTION TRUST CORPORATION (RTC) IN ORDER TO DETERMINE THE STATUS OF PREVIOUSLY REQUESTED CRIMINAL REFERRAL SUBMISSIONS RELATING TO THE FAILURE OF TWO FAILED FINANCIAL INSTITUTIONS WITHIN LITTLE ROCK'S TERRITORY. THESE INSTITUTIONS

29A-LR-2459-1

FOR COMM CENTER USE ONLY

NOTE: Copy Designations Are On The Last Page Of This Teletype!!!

Approved By

LAP/BJ
743/300

MR1/JUL

ISN

0214

Transmitted

OCT 26 1992 2303 ERR

FBI-00000529

DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
COMMUNICATION MESSAGE FORM

^PAGE 2 UNCLAS

WERE SPECIFICALLY IDENTIFIED AS FIRST SAVINGS OF ARKANSAS AND
SAVERS SAVINGS ASSOCIATION.

ON 10/22/92, KEN DONAHUE, CHIEF, INVESTIGATIONS SYSTEMS,
RTC, WAS TELEPHONICALLY CONTACTED IN REGARD TO THESE INSTITU-
TIONS. DONAHUE ADVISED THAT THE RTC INVESTIGATOR IS AN
INDIVIDUAL NAMED JEAN LEWIS, STATIONED IN THEIR KANSAS CITY
REGIONAL OFFICE. HE FURTHER STATED THAT LEWIS WAS AWARE OF THE
PROBLEMS WITHIN THESE INSTITUTIONS AND THAT SHE WOULD BE
TRAVELLING TO LITTLE ROCK IN THE NEAR FUTURE. DONAHUE SAID
CRIMINAL REFERRALS RELATING TO SPECIFIC TRANSACTIONS WITHIN BOTH
INSTITUTIONS WOULD BE FORTHCOMING WITHIN THE NEXT 90-120 DAYS.

BT

////

DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
COMMUNICATION MESSAGE FORM

PAGE 3

ADMINISTRATIVE NOTE/TICKLER COUNT:

ON 9/1/92, LITTLE ROCK RECEIVED A CRIMINAL REFERRAL FROM THE RTC ALLEGING WIDESPREAD FRAUDULENT CHECK-KITING ACTIVITY, LISTING PRESIDENTIAL CANDIDATE BILL CLINTON AND HIS WIFE HILARY AS WITNESSES. A REVIEW OF DOCUMENTARY EVIDENCE BY LITTLE ROCK FBI AND THE U.S. ATTORNEY'S (USA) OFFICE FAILED TO WARRANT FURTHER INVESTIGATION OF ANY OF THE WITNESSES, INCLUDING THE CLINTONS. LITTLE ROCK POINTED OUT THE EXISTENCE OF TWO SUBSTANTIAL FAILURE CASES WITHIN THE DIVISION THAT BOTH THEY AND THE USA'S OFFICE DEEMED BETTER SUITED FOR UTILIZATION OF THEIR RESOURCES. LITTLE ROCK CONSEQUENTLY REQUESTED FBIHQ TO DETERMINE THE STATUS OF THE REFERRALS IN THESE MATTERS AND THIS COMMUNICATION ADDRESSES THAT.

Drafted By: CRK:vf Room/TL #: 3A39 Phone No: 5656

COPY DESIGNATIONS:

1 - MR. KENDRICK

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF ARKANSAS
WESTERN DIVISION

UNITED STATES OF AMERICA,

Plaintiff,

v.

DAVID L. HALE,

Defendant.

No. LR-CR-93-147

Little Rock, Arkansas
March 22, 1994
10:00 A.M.

COPY

PLEA

BEFORE THE HONORABLE STEPHEN M. REASONER,
United States District Judge.

APPEARANCES:

For the Plaintiff:

U. S. Department of Justice
By: ROBERT B. FISKE, JR., ESQ.
Independent Counsel
RUSTY HARDIN, ESQ.
DENIS J. McINERNEY, ESQ.
Associate Counsel
2 Financial Centre, Suite 134
10825 Financial Centre Parkway
Little Rock, Arkansas 72211

For the Defendant:

Skokos & Coleman, P.A.
By: RANDY COLEMAN, JR., ESQ.
425 W. Capitol Avenue Suite 3200
Little Rock, Arkansas 72201

Court Reporter:

CAROLYN S. FANT
P. O. Box 1148
Little Rock, Arkansas 72203

Proceedings reported by machine stenography;
transcript prepared by computer.

Carolyn S. Fant
United States Court Reporter

1 Your Honor, as to Count One, the evidence would
2 show that Mr. Hale was part of a conspiracy with others,
3 including Mr. Matthews and Mr. Fitzhugh, who have been
4 indicted and are scheduled for trial separately, to
5 defraud the SBA of \$900,000. Specifically, the evidence
6 would show that, among other things, that in November of
7 1988 and March of 1989 Mr. Hale and others caused over
8 \$1 million to be temporarily transferred into Mr. Hale's
9 small business investment company, CMS, so that Mr. Hale
10 could make it appear to the SBA that two things were
11 present. Number one, that certain of CMS's
12 non-performing loans had been paid off; and, number two,
13 that CMS had \$400,000 in new paid-in-capital. In fact,
14 the loans had not been paid off and there was no real
15 infusion of new capital in the CMS. Mr. Hale and the
16 others did this so that Mr. Hale could qualify to
17 receive \$900,000 in funding from the SBA. As a result
18 of their fraudulent actions, Mr. Hale's company did in
19 fact receive the \$900,000 in March of 1989.

20 With respect to Count Two of the superseding
21 Information, the evidence would show that during the
22 period of time from 1985 through 1991 Mr. Hale engaged
23 in a scheme during which he caused his company, CMS, to
24 make fraudulent loans to various individuals and
25 entities in order to improperly and illegally benefit

Carolyn S. Fant
United States Court Reporter

1 himself and various other people. Specifically, the
2 evidence would show that on numerous occasions
3 throughout that time period Mr. Hale caused false
4 statements to be submitted to the SBA concerning loans
5 CMS made to numerous entities.

6 In addition, Mr. Hale received a large portion
7 of the proceeds of a loan that he assisted others in
8 improperly obtaining from Madison Guaranty Savings and
9 Loan and then used those proceeds to obtain financing
10 from the SBA.

11 That is what we would anticipate the evidence
12 would have shown if there had been a trial on these two
13 counts.

14 THE COURT: Thank you, Mr. Hardin.

15 Mr. Coleman and Mr. Hale.

16 Mr. Hale, did you hear what Mr. Hardin said?

17 MR.HALE: Yes, sir, I did.

18 THE COURT: Do you acknowledge the truth of
19 that?

20 MR.HALE: Yes, sir, I do.

21 THE COURT: The money you obtained on account
22 of this temporary deposit, who was that loan to?

23 MR.HALE: I'm sorry?

24 THE COURT: What happened to the money you
25 obtained from the SBA by this plan?

Carolyn S. Fant
United States Court Reporter

totaling approximately \$1.4 million. SBA provided funding to Capital Management totaling \$3.4 million on the basis of this private capitalization. Between 1980 and 1993, Capital Management reported 79 financings to SBA, totaling approximately \$9.8 million, to 57 small concerns.

Results in Brief

SBA's oversight of Capital Management was clearly inadequate. SBA examiners failed to recognize strong indicators, or "red flags," that Capital Management was improperly managed. While SBA did finally take action against Capital Management in 1993, its inadequate oversight through the years resulted in a \$3.4-million loss to SBA. GAO reviews in recent years have been critical of SBA oversight of several programs.⁵

Mr. Hale operated Capital Management in an improper manner by entering into prohibited transactions. Such prohibited transactions included loans to business associates and loans for real estate purchases, both of which violated SBA regulations.⁶ He also took advantage of the opening provided by the flexibility in SBA guidelines—for determining socially or economically disadvantaged individuals—to provide loans to individuals with questionable claims to program eligibility.

We were unable to fully analyze the transactions with Susan McDougal, Castle Sewer and Water, and Southloop Construction because key participants were unavailable for interview and Capital Management records were incomplete. Nevertheless, the Susan McDougal loan is an example of loans that Mr. Hale made to persons with questionable eligibility. Capital Management documents showed that Mrs. McDougal had represented the combined net worth of her and her husband to be \$2.2 million and that Mr. Hale had failed to follow SBA guidelines in documenting her eligibility. The sole justification for all three recipients' eligibility, according to Capital Management records, was a 2-paragraph "boilerplate" document developed by Mr. Hale that we found in numerous other loan files.

⁵Small Business: Problems in Restructuring SBA's Minority Business Development Program (GAO/RCED-92-58, Jan. 31, 1992); Small Business: Improving SBA Loan Collateral Liquidations Would Increase Recoveries (GAO/RCED-92-5, Dec. 19, 1991); Credit Management: Widespread Loan Origination Problems Reported (GAO/AFMD-91-7, Nov. 9, 1990).

⁶In addition, Mr. Hale has been indicted by a Little Rock, Ark., federal grand jury for allegedly falsifying a \$400,000 capital investment in Capital Management and allegedly falsifying the status of certain loans on the company's books.

1 review. The basis for my request was an RTC policy
2 directive dated June 17, 1993 on the subject of criminal
3 referrals.

4 Paragraph 1 of that directive explained that its
5 purpose was to consolidate instructions and guidance on
6 making criminal referrals to the U.S. Department of Justice
7 and other agencies.

8 Paragraph 2 of that directive, entitled "policy,"
9 stated that "except in rare circumstances, criminal
10 referrals shall be reviewed by RTC investigations and legal
11 division criminal coordinators before they are delivered to
12 the U.S. Attorney and the FBI or other investigative
13 agencies. RTC criminal coordinators shall make certain
14 that all required and support documents are provided." I
15 acted consistently with this policy directive.

16 In September 1993, the legal division criminal
17 coordinator for the Kansas City office was Karen
18 Carmichael, an attorney in my section who had previously
19 served as the criminal coordinator in Tulsa, Oklahoma. The
20 unambiguous language of the June 17 directive required that
21 she review any criminal referrals before they were
22 delivered to the U.S. Attorney or the FBI.

23 To help her conduct the required review of the Madison
24 referrals, I assigned Philip Adams, an experienced former
25 federal prosecutor who served on the Department of Justice

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THOMPSON, DEPOSITION P. 47
10-24-95

47

1 Q So contacting prosecutors wasn't part of
2 what you did?

3 A Wasn't part of my purview on any normal
4 basis.

5 Q Let's go back to the June 17, 1993
6 document. Paragraph 2 says "policy." "Whenever an
7 investigator, attorney or contractor for RTC
8 discovers suspected criminal activity, that person
9 shall prepare a criminal referral using the standard
10 interagency criminal referral form in accordance with
11 filing instructions and the following guidelines.
12 For purposes of making a referral, suspected criminal
13 activity means there's a reasonable basis to believe
14 that a crime has or may have been committed, i.e.,
15 there's evidence of wrongdoing or factual basis for
16 the belief (not merely a suspicion). Except in rare
17 circumstances, criminal referrals shall be reviewed
18 by RTC investigators and legal division criminal
19 coordinators (RTC criminal coordinators before
20 they're delivered to the U.S. Attorney and the FBI or
21 other investigative agency)."

22 Now, legal division criminal coordinators,

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RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

June 17, 1993

MEMORANDUM TO:

All RTC Investigations Department Heads
(Field Sites)
All Investigations Staff (Washington)
All Assistant General Counsel (Field Sites)
All Litigation, Professional Liability,
and Complex Litigation Section Chiefs
(Field Sites)
All Litigation, Professional Liability,
and Complex Litigation Attorneys
(Washington)

FROM:

James R. Dudine *JD*
Director
Office of Investigations

Thomas L. Hindes *TH*
Assistant General Counsel
Professional Liability Section

James M. Barker *JB*
Assistant General Counsel
Litigation Section

Jerry Patchan *JP*
Assistant General Counsel
Complex Litigation Section

SUBJECT:

Criminal Referrals

1. **Purpose:** To consolidate instructions and guidance on making criminal referrals to the U. S. Department of Justice and other agencies.

2. Policy: Whenever an investigator, attorney, or contractor for RTC discovers "suspected criminal activity," that person shall prepare a criminal referral, using the standard Interagency Criminal Referral Form, in accordance with filing instructions and the following guidelines. For purposes of making a referral, "suspected criminal activity" means that there is a reasonable basis to believe that a crime has or may have been committed, i.e., there's evidence of wrongdoing or a factual basis for the belief (not merely a suspicion). Except in rare circumstances, criminal referrals shall be reviewed by RTC Investigations and Legal Division Criminal Coordinators ("RTC Criminal Coordinators") before they are delivered to the U.S. Attorney and the FBI or other investigative agency. RTC Criminal Coordinators shall make certain that all required information and support documents are provided.

3. Handling of Criminal Referrals: All referrals are sensitive and must be handled with appropriate confidentiality and care. Most RTC criminal referrals are made to the U.S. Department of Justice (including the U.S. Attorney's Office and the FBI). In such cases, each referral should be accompanied by a cover letter signed by a supervisory official; this may be a Section Chief, Department Head, or, in appropriate cases, the Criminal Coordinator. When the criminal referral includes records or information derived from the records of a customer who is an individual or a partnership consisting of five or fewer individuals, the signing official must make the following certification in the cover

HOUSE
TH0704

letter, as required by the Right to Financial Privacy Act,
12 U.S.C. § 3412(f):

The information pertaining to this matter may have been derived from the financial records of customers of federally insured financial institutions. I hereby certify that (A) there is reason to believe that these records may be relevant to a violation of a federal criminal law, and (B) the records were obtained in the exercise of RTC's supervisory or regulatory functions.

Referrals for money laundering and other financial crimes may also be made in this manner to components of the Treasury Department (e.g., the Secret Service). In cases of referrals to other federal agencies, the Legal Division Criminal Coordinator should be consulted to ensure compliance with the other requirements of the Right to Financial Privacy Act.

Copies of significant criminal referrals should also be sent to the Office of Investigations, Washington, D.C. Significant referrals are those which qualify to become "major" cases under DOJ guidelines: (1) Loss due to apparent criminal conduct is \$100,000 or more; (2) The apparent criminal conduct involves a director, officer, professional (e.g., attorney or accountant), or shareholder of the institution; or (3) Other compelling reasons (e.g., the apparent misconduct is part of a pattern or practice involving other financial institutions or the scheme or

TH0705

suspects pose a threat to operating financial institutions). As with all other criminal referrals, official file copies must be retained in the field office.

4. Coordination with Other Agencies: In accordance with a recent agreement, RTC-generated criminal referrals will be forwarded to the Department of the Treasury's FincEN office, to be included in a national database of referrals submitted from financial institution regulators, banks, credit unions and savings associations. Refer to the filing instructions contained on page 3 of the Interagency Criminal Referral Form.

5. Compliance with Senior Interagency Group Policy Statement Regarding National Policy on Collection and Reporting Procedures for Restitution Payable to Financial Institution Regulatory Agencies ("SIG Policy Statement"): RTC Criminal Coordinators shall be responsible for contact with other agencies to insure compliance with the SIG policy statement adopted June 25, 1992. It is essential that all communication with the appropriate investigative agency and/or the USAO or DOJ trial attorney be coordinated in advance between the Legal and Investigations Criminal Coordinators. The line of communication should remain open from the time the referral is made through final disposition, including collection of any amounts due under a criminal restitution order.

HOUSE
TH0706

6. Record Keeping: ~~It is very important~~ that all criminal referrals and the subsequent case and sentencing status be entered into the Thrift Investigations Management System (TIMS). Referrals which were filed by an RTC institution before it failed or by a regulatory agency (OTS or FDIC) which name specific individual(s); and for which the statute of limitations has not expired or for which a criminal case has been initiated (via indictment or information filing) must be entered into TIMS as well. Do not enter inherited referrals which do not name the suspect (e.g. naming "unknown," or "unidentified employees").

A file must be maintained in the field office by the designated Investigations Criminal Coordinator for each referral with supporting documentation and subsequent correspondence. These records are highly confidential and should be treated accordingly (e.g., kept in secured/locked cabinet).

The completed referral form and some related records are subject to the applicable provisions of the Privacy Act of 1974, 5 U.S.C. § 552a, and may not be disclosed to the public in response to a request under the Freedom of Information Act, 5 U.S.C. § 552, or as part of a litigation discovery process. Any requests for referral information from non-regulators or non-RTC investigative or legal staff should be promptly referred or forwarded to the field office Legal Division Criminal Coordinator and the attorney(s) with litigating responsibility (Litigation, PLS, and/or Complex Litigation) for the institution. Outside counsel ~~and~~

TH0707

investigative contractors may have access to these records under the close supervision of the attorney with litigating responsibility for the matter or Investigations, as appropriate. Outside contractors should be advised of the sensitivity of case materials and that disclosures are prohibited.

7. Attachments and References: This directive replaces all others previously issued on this subject. A sample Interagency Criminal Referral Form and SIG Policy Statement are attached. Please review the Investigations Section of the Conservators' Operating Manual and Directive 91-097 issued by OIG. Most of the relevant federal bank fraud statutes are contained in Title 18, U. S. Code.

Attachments

HOUSE
TH0708



RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

6/29/93

Karen

Looks like the new Crim.
Referral form will be
introduced soon. As a
matter of fact, I will
be at an all day training
session today on how
to use the form.

June 1

MEMORANDUM TO:

All RTC Inve:
(Field Site:
All Investig:
All Assistant General Counsel (Field Sites)
All Litigation, Professional Liability,
and Complex Litigation Section Chiefs
(Field Sites)
All Litigation, Professional Liability,
and Complex Litigation Attorneys
(Washington)

FROM:

James R. Dudine
Director
Office of Investigations

Thomas L. Hindes
Assistant General Counsel
Professional Liability Section

James M. Barker
Assistant General Counsel
Litigation Section

Jerry Patchan
Assistant General Counsel
Complex Litigation Section

SUBJECT:

Criminal Referrals

1. Purpose: To consolidate instructions and guidance on making criminal referrals to the U. S. Department of Justice and other agencies.

HOUSE

801 17th Street, N.W. Washington, D.C. 20034

TH0709

UNITED STATES OF AMERICA

Congress of the United States

To Office Depot, Inc. Attn. Ken Stolar, Customer Research Department
2200 Old Germantown

Delray Beach, Florida 33445

Greeting:

Pursuant to lawful authority, YOU ARE HEREBY COMMANDED to
 appear before the Special Committee on Whitewater Development Corporation
and Related Matters
 of the Senate of the United States, on December 12, 1995,
 at nine o'clock a. m., at their committee room
534 Dirksen Senate Office Building, then and there
 to testify ~~what you may know~~ relative to the subject matters under con-
 sideration by said committee.

Produce the documents and records described in Attachment A.

~~Do not fail to~~, as you will answer your default under the pains and pen-
 alties in such cases made and provided.

To Joseph Kolinski, Chief Clerk
 to serve and return.

Given under my hand, by order of the committee, this
5th day of December, in the year of our
 Lord one thousand nine hundred and ninety five

Agone D'Amato
Special Whitewater Development Corp.
Chairman, Committee on and Related Matters

ATTACHMENT A

Produce any and all records and documents that record, reflect, or refer to the date of purchase of an Olympus Model S924 microcassette recorder with serial number 196860VGP, believed to have been purchased by L. Jean Lewis in early 1994 in or around Kansas City, Missouri.

December 6, 1995

Joseph Kolinski
Chief Clerk
United States Senate
534 Dirksen Senate Office
Washington, D.C 20610

Re: Subpoena Duces Tecum from Special Committee to Investigate Whitewater
Development Corporation

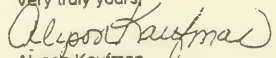
Dear Mr. Kolinski:

In response to the request for documents as set forth in Attachment A of the Subpoena, enclosed please find a copy of the register receipt which may be evidence of the purchase in question. The receipt reflects that this purchase was made on January 17, 1994 in our Office Depot store located at 11225 W. 64th Street, Shawnee, Kansas.

Please note that Office Depot was able to locate and obtain this sales receipt only after receiving a telephone call from Jean Lewis who provided the date of purchase, location of the store and the dollar amount spent. Office Depot does not have any resources which would enable us to identify or confirm the identity of the person who made this purchase nor verify the serial number.

I have been advised by investigator Jim Petruzzi that the production of the documentation is sufficient for the purpose of responding to the Subpoena and that it will not be necessary for someone to appear in person. Unless I hear from you to the contrary, I will assume that it is not necessary for an Office Depot representative to appear in person at 9:00am on December 12, 1995. I can be reached at (407) 266-1299.

Very truly yours,


Alyson Kaufman
Paralegal/Legal Dept.

enc.

Office DEPOT, Inc.

2200 Old Germantown Road, Delray Beach, FL 33445

407/278-4800

ACCOUNT NUMBER 9132685762
CHECK 18.93

APPROVAL CODE 9999
000057320000002072000055248000000000
1/17/94 10:27

2.JA 7 SALE 9716 0176 002
3033240323 OLYMPUS S924 49.99
MFG.LIST \$81.00

3087808683 JASCO AC ADAPTOR 9.99
MFG.LIST \$14.99

2521517903 60MIN. MICRO JPK 4.99
MFG.LIST \$9.39

SUBTOTAL 64.97
KS. 6.5% SALES TAX 4.22
TOTAL 69.19

ACCOUNT NUMBER 9139687237
CHECK 69.19

APPROVAL CODE 9999
00006423900000207200006521470000000000
1/17/94 10:29

2.JA 7 SALE 9717 0176 002
7170924412 MARKER SET 5.99
MFG.LIST \$6.00

8955514559 COMBO MARK/BLU 29.99
MFG.LIST \$42.75

SUBTOTAL 33.98
KS. 6.5% SALES TAX 2.21
TOTAL 36.19

ACCOUNT NUMBER 6011564101253044
Q.D. CHARGE (SPS) 36.19

APPROVAL CODE 017650
00000678580000002072000065786000000000
1/17/94 10:29

2.JA 7 SALE 9718 0176 002
3027344106 PC MINI BLK CART 74.87
MFG.LIST \$94.95

SUBTOTAL 74.87
KS. 6.5% SALES TAX 4.87
TOTAL 79.74

ACCOUNT NUMBER 9136310127
CHECK 79.74

APPROVAL CODE 9999
00007553200000207200006737600000000000
1/17/94 10:35

LEVEL 1 - 107 OF 138 STORIES

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November 2, 1993, Tuesday, Final Edition

SECTION: FIRST SECTION; PAGE A1

LENGTH: 1389 words

HEADLINE: Clintons' Former Real Estate Firm Probed; Federal Inquiries Focus on Financial Activities of Other Arkansans

SERIES: Occasional

BYLINE: Michael Isikoff, Howard Schneider, Washington Post Staff Writers

BODY: A real estate firm that was half-owned by President Clinton and Hillary Rodham Clinton is under scrutiny in two separate federal investigations that focus on the financial activities of prominent Arkansas business and political figures, according to federal officials and law enforcement sources.

The company, Whitewater Development Corp., has been a recurring source of controversy for the Clintons. The company was formed to develop vacation and retirement homes on the White River in a remote section of the Ozarks. The Clintons have said repeatedly that Whitewater was a debt-ridden, money-losing venture in which they were passive investors.

In recent interviews and public statements, David Hale, a former municipal judge in Little Rock under indictment on charges of defrauding the federal Small Business Administration, has contended that during the mid-1980s Bill Clinton and others pressured him to make SBA-backed loans to help get bad loans off the books of a failing S&L, Madison Guaranty Savings and Loan. The White House has repeatedly denied that any such conversations took place.

During an FBI raid last July on the offices of Hale's SBA investment firm, agents seized documents that included records of a \$ 300,000 loan to a public relations company headed by Susan McDougal, a partner in Whitewater. Some of the proceeds of the loan -- intended to aid "socially or economically disadvantaged" borrowers -- were used to finance a large purchase of rural property from the International Paper Co. by Whitewater in October 1986, according to a participant.

As The Washington Post reported Sunday, the federal Resolution Trust

Corp. has been scrutinizing Whitewater's land purchases as part of a separate probe into the use of depositor funds from Madison, which Susan McDougal's husband, James McDougal, controlled. The RTC has asked U.S. Attorney Paula Casey in Little Rock to open a broad probe into whether Madison's depositor funds were improperly used to benefit local politicians. Madison failed in 1989 at an estimated \$ 47 million cost to taxpayers.

Sources familiar with the probe also say that RTC investigators have examined Whitewater's purchase of the International Paper Co. land and forwarded questions to Casey. Shares of Whitewater were equally owned by the Clintons and McDougals.

The White House has said that Clinton, who was then serving his third term as Arkansas governor, and his wife were not aware of the loan to Susan McDougal or of Whitewater's purchase of the International Paper Co. land. The purchase, by far the corporation's largest transaction, was not disclosed in documents released by the Clintons last year to explain Whitewater, which became an issue during the presidential campaign.

"There's no way in the world that the Clintons would know about something like that," said senior White House aide Bruce Lindsey when asked about the International Paper Co. purchase. "It's not as though they were sitting in a corporate office somewhere passing corporate documents around."

Justice Department officials have said in recent interviews that last summer's FBI raid was related to an investigation of Hale's activities as head of Capital Management Services Inc., the SBA-backed investment firm. The investigation is not focusing on the president or his wife, officials said.

Martin Teckler, deputy general counsel to the SBA, would not comment on Capital Management, which is now in receivership. The loan to Susan McDougal's firm is in default and the SBA is seeking to recover the funds. As a general matter, Teckler said, "The agency is definitely interested in seeing to it that any misrepresentations to obtain funds from the agency are pursued."

Questions about the Susan McDougal loan were raised publicly last September by Hale after he unsuccessfully sought to have the fraud charges dropped in exchange for his information about the financial dealings of other Arkansas political figures. Justice Department officials said he had "no tangible information" that would justify dropping felony charges against him.

Hale, who first aired his charges in the Arkansas Democrat-Gazette, said

in an interview that Bill Clinton and James McDougal repeatedly pressed him to make the loan to Susan McDougal's firm, Master Marketing. Hale said he was told by James McDougal the loan could help with "cleaning up" problems at Madison Guaranty, which was then under pressure from federal regulators.

"Bill Clinton and I never discussed any loan with David Hale any time," said McDougal, who was acquitted of federal bank fraud charges involving Madison in 1990. He added that he was willing "to take a lie-detector test on national television absolving the president of this ridiculous accusation."

Hale said in a recent interview that McDougal first told him in the fall of 1985 that there were "some members of the political family [in Arkansas] that had some loans that might be in question at Madison. "

Susan McDougal said in an interview she did not remember the Master Marketing loan. James McDougal said the loan proceeds were deposited at Madison and that he used part of the money to purchase the property for Whitewater from International Paper.

He said the Clintons were not informed of the purchase. "The Clintons never knew it took place, were never consulted on it. . . . If you knew the Clintons, they were the last goddamn people on Earth you'd consult on a business deal."

Land records in Pulaski County, Ark., show that Whitewater bought 810 acres from International Paper in October 1986 for \$ 550,000. Whitewater made a \$ 100,000 down payment and International Paper agreed to finance the balance, records show. International Paper spokeswoman Kathleen Willemin declined to comment specifically on the sale, but said the company makes several hundred such sales a year and often finances them.

The transaction was potentially sensitive for Clinton. A year earlier, he had negotiated major tax concessions for International Paper to keep it from moving two of its plants out of the state.

Two months after the purchase, James McDougal transferred title to the property from Whitewater to a company owned by him and his wife. Whitewater remained obligated, along with the new company, for the mortgage loan and was later named in a lawsuit International Paper filed to reclaim the property after a default in mortgage payments.

Whitewater was formed initially to develop 200 acres of land in the Ozarks. At the time, James McDougal was serving in Clinton's first gubernatorial administration as an economic development aide.

Several years after Whitewater was started, Hillary Clinton and her law firm, the Rose firm, represented Madison before state regulators while Clinton was governor. Questions about possible conflicts became an issue in Clinton's 1992 campaign.

Clinton campaign officials hired James Lyons, a Denver attorney, to issue an accounting of Whitewater's finances. While reporting that the Clintons had invested \$ 70,000 of their own funds in the company, Lyons's report depicted Whitewater as a debt-ridden company that had done virtually no business for years. Clinton aides said then that remaining questions about Whitewater could not be addressed because many of its records were missing.

Records show that Whitewater failed to file corporate tax returns during a three-year period in which the Clintons remained half owners of the firm. This omission was discovered last December when the late Vincent Foster, the Clintons' personal attorney and later deputy White House counsel, met McDougal to execute the sale of the Clintons' interest in Whitewater to McDougal.

Foster took responsibility for filing the returns and later hired a Little Rock accountant who brought the returns to the offices of McDougal's lawyer on June 21, 1993. The copies show that Whitewater realized no income during that period.

When copies of Whitewater's tax returns were requested last year, Clinton campaign officials directed reporters to McDougal.

But McDougal said in a recent interview he delivered his copies of Whitewater's financial records to the governor's mansion in 1987.

"They assumed the responsibility for filing the tax returns up until now," he said.

Staff writer Susan Schmidt contributed to this report.

1ST STORY of Level 1 printed in FULL format.

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November 2, 1993, Tuesday, Late Edition - Final

SECTION: Section A; Page 20; Column 1; National Desk

LENGTH: 1886 words

HEADLINE: U.S. Investigating Clinton's Links to Arkansas S.& L.

BYLINE: By JEFF GERTH with STEPHEN ENGELBERG. Special to The New York Times

DATELINE: WASHINGTON, Nov. 1

BODY:

Federal investigators are raising questions about ties between President Clinton and an Arkansas businessman, a political patron of Mr. Clinton in the 1980's whose failed savings and loan is now under investigation.

Government officials and lawyers familiar with the case said the President was neither the subject nor a target of the investigation, which is still in its early stages.

But the inquiry focuses on questionable financial dealings involving the savings and loan, Madison Guaranty, from which Mr. Clinton benefited both personally and politically. The savings and loan's owner, James McDougal, was one of Mr. Clinton's closest associates in Arkansas and was, at various times, his business partner, political fund-raiser, family banker and senior aide when Mr. Clinton was Governor of Arkansas.

Advantageous Relationship

Mr. Clinton's banking commissioner advised him in 1983 that Mr. McDougal was engaged in questionable banking practices. But the two men nevertheless maintained a business and political relationship throughout the 1980's that helped both men. When Mr. Clinton needed someone to raise \$35,000 to retire debts from his 1984 re-election campaign, he turned to Mr. McDougal.

Mr. McDougal denies any wrongdoing. His lawyer, Sam Heuer, said his client was under investigation by the United States Attorney in Little Rock, Ark. Last month the Federal agency that disposes of failed savings and loans, the Resolution Trust Corporation, asked the United States Attorney in Little Rock to examine several possible violations of law in the operations of the savings and loan, including transactions that may have helped Mr. Clinton pay his campaign debts.

According to Federal officials, court documents and lawyers familiar with the case, the two Federal agencies have been trying to find out whether more than \$250,000 in business loans was improperly diverted from Madison in April 1985 to several sources, including Governor Clinton's re-election campaign.

The officials said the campaign received \$12,000 in cashier's checks from Madison, some of which appeared to have been paid for by the business loans. The former Clinton aide who deposited the money said neither she nor Mr. Clinton

The New York Times, November 2, 1993

was aware of any irregularities about its source.

Investigators have asked prosecutors to see whether the campaign contributions were linked to efforts by Madison to win state approval for an unusual plan to raise new capital by issuing stock, the officials said.

Finally, prosecutors are studying a \$300,000 loan from a federally sponsored lending company to Mr. McDougal's wife, Susan. The man who made the loan, David Hale, was indicted in September on unrelated charges.

In an effort to win leniency from prosecutors on the eve of his indictment, Mr. Hale offered prosecutors information about Mr. Clinton and other Arkansas politicians, but was unable to reach a plea agreement. Mr. Hale asserted in interviews with reporters that Mr. Clinton had personally pressed him to make the \$300,000 loan.

A White House spokesman said Mr. Clinton had no recollection of any such conversation. Mr. Hale said Mr. McDougal told him the money would help conceal earlier favors for the Governor.

New Prosecutor

The criminal investigations of Madison and Mr. Hale's lending activities are being directed by the new United States Attorney in Little Rock, Paula J. Casey. On Sunday, The Washington Post disclosed the Resolution Trust Corporation's request to Ms. Casey, and The Wall Street Journal reported on the inquiry today.

Mr. Hale's lawyer has questioned Ms. Casey's independence. She was a volunteer in Mr. Clinton's campaigns for governor and was his student at the University of Arkansas law school. Ms. Casey would not discuss the case but told Mr. Hale's lawyer that she was not afraid to prosecute anyone.

Mr. McDougal, who is at the heart of the inquiry into the savings and loan's affairs, continues to blame regulators and prosecutors for his downfall, calling them overzealous. He was acquitted of Federal bank fraud charges involving Madison in 1980.

Mr. McDougal met Mr. Clinton in the late 1960's, when both men worked on the staff of Senator J. William Fulbright, the Arkansas Democrat and longtime chairman of the Senate Foreign Relations Committee.

Ozarks Real Estate Deal

In 1978, the McDougals brought Mr. Clinton and his wife, Hillary, into a real estate deal, buying 200 acres of the Ozarks in northern Arkansas. Later, the property was transferred to their company, Whitewater Development, with both couples sharing the liabilities and potential profits.

When Mr. Clinton first took office as Governor in 1979, Mr. McDougal joined him as an economic development aide. But he soon returned to business, buying a bank in northern Arkansas and a savings and loan in a small town about 75 miles from Little Rock.

By 1983, Mr. McDougal's bank was in trouble with Arkansas regulators. The state's banking commissioner, Marlin S. Jackson, ordered the bank to stop

The New York Times, November 2, 1993

making imprudent loans. Mr. Jackson, a Clinton appointee, said in an interview last year that he told Mr. Clinton at the time of Mr. McDougal's questionable practices.

Meanwhile, the savings and loan continued to grow, from \$6 million in assets to more than \$100 million by 1985. It opened a branch in Little Rock near the Statehouse and began making loans to prominent Democrats, including Mr. Fulbright and Jim Guy Tucker, a Little Rock lawyer who is now Governor of Arkansas.

Records also indicate that Madison was helping Whitewater, the real estate business owned by the Clintons and McDougals. In 1984 and 1985, as the company continued to post losses, check ledgers show that the company had frequent, sizable overdrafts on its account at Madison.

Also in 1985, Madison Marketing, a McDougal family business that derived all of its revenue from the savings and loan, provided the funds for Whitewater to make a \$7,322 payment on a loan taken out by Mr. Clinton from another bank, according to bank records.

The Clinton Presidential campaign said last year that the McDougals had contributed a disproportionate share of Whitewater's money, \$92,000 against \$68,000 by the Clintons.

In interviews last year, Mr. McDougal seemed to view his relationship with Mr. Clinton as unbalanced. On the one hand, he said, "Bill never turned me down on something I asked for, and I only asked for it occasionally."

But on the other hand, Mr. McDougal said, he helped the Clintons in numerous ways, from agreeing to hire Mrs. Clinton to do additional legal work at Madison, to paying on Mr. Clinton's behalf part of the loans on the Ozark property.

Favors on Both Sides

Mr. McDougal said in the same interviews that 1985 was a year of favors on both sides. In early 1985, he said, Mr. Clinton asked him to raise enough money to retire about \$35,000 in debts left from his 1984 campaign.

Betsey Wright, who ran the 1984 campaign, confirmed that Mr. Clinton had made the request and said it led Mr. McDougal to be the host for a small fund-raising event in 1985 at the savings and loan. Mr. Clinton attended that event.

As for the source of the donations, Ms. Wright said: "I'm sure we would have no idea. Any hint of a problem and we would not have accepted."

At least \$12,000 worth of cashier's checks issued by Madison wound up in the campaign's coffers in April 1985, Federal officials said. Some came from a business loan that Madison made to a McDougal associate and was never repaid. The rest was from Mr. McDougal's personal and corporate accounts, the officials said.

Days before Mr. McDougal held his fund-raising event for Mr. Clinton, Madison learned that it faced a serious problem. Federal regulators were concerned by the savings and loan's rapid growth and the failure to have on

The New York Times, November 2, 1993

hand enough capital to meet Federal requirements.

State Approval Needed

Madison's proposal was to raise money to meet the capital requirement by selling a form of stock never issued before in Arkansas by a savings and loan. Because it was a state-chartered institution, Madison needed the approval of Arkansas regulators.

The savings and loan did not rely on its usual outside counsel for this issue, turning instead to the Rose law firm of Little Rock, where Mrs. Clinton was a senior partner. In written answers to questions last year, she said she met with Mr. McDougal once in April 1985 to discuss working for Madison. She declined to elaborate.

In the documents forwarded to prosecutors, investigators for the Resolution Trust Corporation have questioned whether the campaign contributions were connected to Madison's effort to get state regulators to approve its stock plan. Federal officials say. By May, Arkansas regulators had concurred that the stock plan was legal, but it was never carried out.

James M. Lyons, a Denver lawyer who reviewed Mr. Clinton's dealings with Mr. McDougal for the Clinton Presidential campaign last year, said today that there was no connection between the contributions and the effort before the state regulators.

Mr. McDougal, in interviews, denied any impropriety in connection with the campaign contributions or the attempt to win approval for the stock plan.

At the end of 1985, Mr. McDougal said last year, Mr. Clinton did do him another favor, helping set up a state revenue office in a Little Rock building owned by a subsidiary of Madison.

By the fall of 1985, Mr. McDougal faced mounting pressure, some of which came from the prospect of a Federal audit scheduled for early 1986.

David Hale, a Democratic municipal judge in Little Rock who operated a federally sponsored lending company, said he was approached by Mr. McDougal in late 1985 to make loans that would help the "political family" of Arkansas Democrats.

Mr. Hale's company was part of a Small Business Administration program intended to provide capital for businesses owned by "socially or economically disadvantaged" people. Mr. Hale was recently indicted on charges of misleading the Government about the condition of his lending company. He has since resigned as a judge and is contesting the charges.

In interviews before his indictment, Mr. Hale said Madison financed a land deal in February 1986 in which he was paid hundreds of thousands of dollars more than the property was worth. Court records show that this loan was never repaid, resulting in a loss of \$672,000 to taxpayers.

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ACCESS # 931103-0086.

HEADLINE U.S. Probes S&L Loans
 And '85 Check to Clinton

LENGTH ESTIMATED INFORMATION UNITS: 2.2

WORDS: 204

DATE 11/03/93

SOURCE WALL STREET JOURNAL (J), PAGE A16

WASHINGTON -- Federal investigators are looking into the possible diversion of more than \$250,000 in business loans from an Arkansas thrift, including funds contributed to President Clinton's 1984 re-election campaign for governor.

The size of the possible diversion being investigated by the Resolution Trust Corp. and federal prosecutors was reported by the New York Times. The inquiry is part of a larger investigation of Madison Guaranty Savings & Loan, a Little Rock, Ark., thrift owned by Clinton friend and business associate James McDougal, until it failed in 1989 and was taken over by the RTC.

The White House confirmed that the Clinton gubernatorial campaign received a \$3,000 personal check from Mr. McDougal in April 1985. At the time, the campaign was trying to retire 1984 campaign debts. "We would have no reason to know or question the source of funds for that check," said senior White House aide Bruce Lindsey.

In 1978, Mr. McDougal and his wife, Susan, invested with Bill and Hillary Rodham Clinton in an Ozark Mountains real-estate venture, which was transferred to the couples' jointly owned Whitewater Development Corp. The money-losing corporation's dealings with Madison Guaranty also are being scrutinized by federal investigators. The McDougals couldn't be reached immediately for comment.

End of Story Reached

January 14, 1994 5:05pm Page 3

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Current Source: J
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DOCUMENT- 1 OF 1 PAGE - 1 OF 5

ACCESS # 931101-0090.

HEADLINE U.S. Investigating S&L Chief's '85 Check
 To Clinton, SBA-Backed Loan to Friend

By Bruce Ingersoll and Paul M. Barrett
 Staff Reporters of The Wall Street Journal

LENGTH ESTIMATED INFORMATION UNITS: 7.0 WORDS: 820

DATE 11/01/93

SOURCE WALL STREET JOURNAL (J), PAGE A3

WASHINGTON -- Federal prosecutors are investigating whether money from a now-defunct Arkansas thrift was illegally diverted in the mid-1980s to local politicians, including a re-election campaign of then-Gov. Bill Clinton.

The probe is the latest development in a larger federal investigation of Madison Guaranty Savings & Loan, which was taken over by federal regulators after it failed in 1989.

In addition, prosecutors are investigating an alleged defrauding of the Small Business Administration by the head of a Little Rock small-business investment company, which lent money to the wife of James McDougal, a Clinton business associate and owner of Madison Guaranty. Both the political contributions and the fraud allegations are being handled by the U.S. attorney in Little Rock, Paula Casey.

Federal officials familiar with the inquiries said the Resolution Trust Corp. recently referred to Ms. Casey the matter of possibly illegal campaign contributions. The U.S. attorney's office is examining, among other questions, whether checks drawn on Madison accounts went into a Clinton campaign fund. Ms. Casey, a Clinton appointee, declined to comment.

White House aides said yesterday that in 1985 Mr. Clinton had received a \$3,000 personal check from Mr. McDougal. The contribution was part of a larger effort to retire debts from Mr. Clinton's 1984 gubernatorial campaign.

Mr. McDougal is a longtime friend of Bill and Hillary Rodham Clinton, and in 1978, he and his wife invested with the Clintons in an Ozark Mountains real-estate venture known as Whitewater Development Corp. The U.S. attorney's office is looking at
 * Whitewater's dealings with Madison Guaranty. The Clintons have
 * described Whitewater as a money-losing venture.

The McDougals also figure in the small-business fraud investigation. One of the investment-company transactions being scrutinized is a \$300,000 loan in 1986 to a firm owned by Susan McDougal. "We're looking at all the financial dealings of the company," said Martin Teckler, the SBA's deputy general counsel.

Yesterday, White House aides sought to distance the president from the investigations. As for the \$3,000 check from Mr. McDougal, they said that neither Mr. Clinton nor his staff had any reason at the time to suspect there was anything improper about the 1985 contribution.

"The first we heard about the investigation into political contributions was from press calls," said White House spokesman Jeff

Eller. The Washington Post yesterday reported the RTC referral to the U.S. attorney.

"The investigation will just take its course," Mr. Eller added.

An RTC spokeswoman said the cause of Madison Guaranty's collapse has been under investigation, but she wouldn't confirm or deny that the RTC had asked the U.S. attorney to make a further criminal inquiry of possibly improper campaign contributions.

"With all failed savings and loans, we do an investigation," said RTC spokeswoman Felisa Neuringer. "If we find something that goes beyond our realm" of civil enforcement measures, "then we can and do make referrals to the Justice Department."

A federal official familiar with the matter said Ms. Casey, the federal prosecutor, will have to determine whether allegations related to transactions in the mid-1980s can still be prosecuted. Two obstacles could be the expiration of the statute of limitations and the disappearance of records.

Ms. Casey was also asked to look into Madison Guaranty's dealings with Arkansas Gov. Jim Guy Tucker, according to the Washington Post. The thrift lent more than \$1 million to Mr. Tucker's companies for real estate and other ventures in the mid-1980s, while he was a member of a Little Rock law firm that represented Madison. The thrift sustained large losses on some of the loans, the Post reported.

Last night, Mr. Tucker's press secretary said that the governor denies any wrongdoing in connection with loans to himself or partnerships in which he has an interest, and added that there are no outstanding loans.

On a parallel track, federal prosecutors in Little Rock are pursuing a criminal case against a former local judge, David Hale, and two other men involved in the collapse of Capital Management Services Inc., a SBA-funded investment company. In September, a federal grand jury indicted Mr. Hale, owner of Capital Management, and the others on fraud charges, and the SBA took over the undercapitalized investment company.

Capital Management made loans to companies in which Mr. Tucker had large stakes as well as the \$300,000 loan to Master Marketing, a real estate firm owned by Susan McDougal, according to loan documents. Mr. Hale said that losses on these loans were partly to blame for Capital Management's downfall.

Mr. Hale tried to stave off his indictment by offering to cooperate with federal prosecutors in an investigation of Madison Guaranty, including possible misuse of funds for political purposes. Ms. Casey declined to comment on why Mr. Hale's offer was turned down.

Mr. McDougal, who was acquitted in 1990 of fraud charges stemming from Madison Guaranty's collapse, couldn't be reached yesterday for comment. James Henley, father of Susan McDougal, said last night: "She has no wish to comment at all."

End of Story Reached

Current Source: J

Open Up on Madison Guaranty

Much as President Clinton might wish, the curious saga of his and his wife's dealings with the owner of a failed Arkansas savings and loan association just won't go away. It keeps popping up in Congressional inquiries and newspaper accounts, each time with a new and unsavory detail added to an already unflattering portrait of the cozy relationship between money and politics in Arkansas.

An important detail, disclosed by *The Times's* Jeff Gerth and Stephen Engelberg, is that the owner of Madison Guaranty Savings and Loan, James McDougal, helped Mr. and Mrs. Clinton repay a \$50,000 personal debt just when Mr. McDougal needed favorable treatment from state banking officials to stay in business. Mr. McDougal did stay in business, his problems got worse, and in 1989 the bank was taken over by the Federal Government, at a cost to taxpayers of \$60 million.

There is no irrefutable evidence of a quid pro quo. But the Arkansas savings and loan mess, and the Clintons' relationship to it, is not, as the White House keeps saying, an "old" story that has no relevance to Mr. Clinton or his present job. This is a man who rode into Washington on a pledge to end politics as usual, and every time the White House dodges inquiries about the old days in Arkansas, reasonable people begin to wonder about a cover-up and Mr. Clinton's sincerity.

The matter clearly needs ventilating, and if the White House won't do it, two other institutions can. One is the Justice Department, which is already looking into transactions at Madison. The Clintons are not targets of the probe.

The other is the House Banking Committee, whose ranking minority member, Jim Leach, believes that a full investigation of Madison could help the committee frame new rules to prevent future banking disasters. His request has been rebuffed by the committee chairman, Henry Gonzalez, a Democrat who until now has been a tiger on the savings and loan issue. Mr. Gonzalez accuses Mr. Leach of a Republican "fishing expedition."

Mr. Leach has also called Madison a "private piggy bank" for its owners and their influential Arkansas friends, and on this he is surely right. In addition to a string of dubious real estate investments, Madison made large unsecured loans to executives and other insiders.

Madison's practices attracted the attention of Federal auditors, whose 1984 review found "unsafe

and unsound lending practices" that could threaten to drive the bank under. Shortly thereafter, Governor Clinton named Beverly Bassett Schaffer as head of the Arkansas agency charged with overseeing state-chartered savings and loans. Ms. Schaffer had once done legal work for Madison. For the next 18 months, up to the point where Federal regulators moved in, she took no significant regulatory action.

Three months after her appointment, Mr. Clinton came to Mr. McDougal with a request to "knock out the deficit" — Mr. McDougal's words — left over from the Governor's 1984 campaign. It turns out that the deficit wasn't just an ordinary campaign debt, but \$50,000 Mr. and Mrs. Clinton had borrowed from another bank to finance the campaign. Mr. McDougal organized a fund-raiser and the debt was repaid. Federal auditors suspect that some of the donations assembled by Mr. McDougal may have been improperly diverted from the savings and loan.

Bruce Lindsey, the official wheeled out by the White House to answer questions, says the Clinton-McDougal relationship was entirely above board. Others, however, are more than mildly troubled by the fact that Mr. Clinton did not order his regulators to crack down on Mr. McDougal even after he was advised by his own banking commissioner in 1983 that the savings and loan operator was engaged in imprudent banking practices.

Suspensions that Mr. Clinton was excessively kind to his friend — at great cost, eventually, to the taxpayers — are further reinforced by the fact that Mr. McDougal had done other favors for the Clintons, including making them 50-50 partners in Whitewater Development, a real estate company for which Mr. McDougal put up most of the money. The venture ultimately failed, and the Clintons lost money. But that doesn't make their financial ties to Mr. McDougal seem any more savory.

Based on what's publicly known, there's probably not a crippling scandal here. But the White House is behaving as if there were. For example, Federal investigators say they have received little cooperation in a search for files they suspect were taken from the office of Vincent J. Foster, a White House aide who killed himself. Investigators want to know if one of those files dealt with Mr. McDougal and Whitewater.

This defensiveness isn't helping anyone. Mr. Clinton — and Mr. Gonzalez — owe it to the public to clear the air about Madison and its influential Arkansas friends.

Whitewater 8/7/99

- I. Reno denial —
haven't decided *

II.

III. We cannot affect the scope of the prosecution
Politically - fewer assets to lessen the exposure

IV. Madison Guaranty not getting special treatment
- Most important thing to prove next week
GS: James taught me the
camping to be a lot better

V. PB. BL. Waldman → to ask to meet c Beverly Bassett
Try to poke holes in their story
- Try to get ind. validation from
Securities atty
- Search of Ark regulation

26 HRC Reames = 2 hrs
 to Europe

Get in a group of attys to discuss
 Spel/last phase

Get dropped kicking into it for 480s

hears aye as SOL - can be used as
 our friend for aye as spel Counsel -

All agree (but BN) that Reno is boxed aice
 and C starts

27 Spel Counsel - 3 major problems HRC adamantly opposed;
 (1) Reno has shut the door; (2) if we ask, it looks
 like we have ducked.

Boxes going but some prosecutorial authority anyway

BN - Don't want SC or IP; Prefers court hearings to Pusch
 or Carr

28 Why of attys outside of WH

Bru Bassett - is so fuckin' soft

if we fuck this up, we're done
 let's not take it to death - let's just get it done

HI - We can't send PB.M. now
- it will come out

Item by item → make sure her story is OK

Tisdale? - in Lindsey's firm
Skip? → with pass
PB friend my lawyer?

Quran - arms length


 S 020578

Whitewater - Spain Machine Office

H7 - Trying to reopen it - us - impossible
 POTUS can't -
 staff can't

Christopher to talk to POTUS
 Bob Bennett

Hein Spoke with Pawyers

BN - Indictments will be Betsy Wright

Whitewater Stan
Ward

BN argu aginst spel prosecutor

H1 Alan Carver at DOJ - bad guy
When Kendall called - when he called
on speakerphone were 2 FBI agents + Jim Nixon
Those guys are fuckin vs blue

Conversation with POTUS - ⁽¹⁾ for release of statement

Story - nationwide; not just insiders

- Make clear

- on own accord

- on off chance it may be helpful

not because

anywhere by anyone

any authority so unwilling

⇒ Lost \$

⇒ Never rec'd any inquiries

S 020580

Why now?

No indication of anyone - go it
If you want it - we'll let you see it

Very nice - re

No one has ever suggested
we did anything wrong

- Maybe helpful

⇒ Restate basic facts

⇒ Dealing with intellectually
dishonest people

⇒ Do not know/care of truth

⇒ Careful investigation

(3.)

If anything is it.


S 020582

- no privileges
- no subpoena today
- no assets
- voluntarily action
- Kendall will ask for subpoena

put everything out to
 put people's mind at rest
 hence asked
 in view of
 public - that
 nothing to hide

HRC will comment on release

- Tgth -

- Nothing withheld

- TOGETHER

not lawyers

① Why now? H

② MYT

③ What's in it?

FILE: WW/ Cassen

THE WHITE HOUSE
WASHINGTON

January 11, 1994

MEMORANDUM FOR CIRCULATION

FROM: JAKE SIEWERT
SUBJECT: Preferred Stock

At the suggestion of Michael Waldman, I have done some research on the issuance of preferred stock by S&L's in the early 1980's. Several media accounts have portrayed the 1985 plan to have Madison Guaranty issue preferred stock as somehow "novel" or "unique." That is far from the case:

- Authority to Issue Preferred Stock Granted in 1979. The American Banker reported in August of 1979 that federally insured S&L's have had the authority to issue preferred stock since 1975.
- A Florida S&L Got FHLBB Approval for Preferred Stock in the 1979. In August, 1979, the American Banker reported that a Florida savings and loan association became the first Federal S&L to issue preferred stock as the result of a ruling by the Federal Home Loan Bank Board.
- A Bank in Mississippi Issued Preferred Stock as Part of a Successful Reorganization that Received National Recognition. In February 6, 1980, the American Banker reported that a S&L in Mississippi was recapitalized under a preferred stock plan that received the approval of the Mississippi Commissioner of Savings Associations and favorable responses from the Securities and Exchange Commission and the Federal Home Loan Bank Board. After the recapitalization, it made substantial progress rebuilding and reported profits in excess of \$2,000,000.00 in 1979. On September 29, 1980, the merger and its use of preferred stock received a detailed and favorable profile in American Banker.
- A Major California Bank Merger in 1980 Involved Preferred Stock. On August 27, 1980, the New York Times reported that the Golden West Financial Corporation, a savings and loan holding company based in Oakland, California agreed to acquire the Westdale Savings and Loan Association, Los Angeles in a scheme involving the issuance of preferred stock. The bank merger involved over 100 thrift branches.

5 020589

NOTES ON PREFERRED STOCK
JANUARY 11, 1994
PAGE 2

• Large Banks Began Issuing Preferred Stock in 1982. In November of 1982, City Federal Savings and Loan Association, the largest depository institution in New Jersey, announced plans to offer 2,000,000 shares of cumulative convertible preferred stock through an underwriting syndicate led by Morgan Stanley.

• Use of Preferred Stock Not Confined to the Business Papers. On September 13, 1983, the Christian Science Monitor ran a story titled "How Banking Barriers are Coming Down" that discussed the use of preferred stock in bank mergers.

• Federal Regulators Acknowledged that the Issuance of Preferred Stock was Common in 1984. In April, 1985, the Federal Home Loan Bank Board which was operating FSLIC amended its regulations on the issuance and use of subordinated debt securities by federally insured savings and loans. In the new regulations, the FHLBB specifically said that many S&L's had begun to issue preferred stock: "The Board is aware that during the past year many institutions have issued subordinated debt to 'limited purpose' finance subsidiaries which obtained the funds to purchase the subordinated debt by issuing preferred stock to independent third parties." The FHLBB rule on subordinated debt was first published on December 5, 1984.

By 1984, the Use of Preferred Stock by Thrifts Was Widely Discussed in the Banking and Legal Press. For example, a December 1984 article in Legal Times, "Offerings Provide Thrift Financing Alternatives," analyzed the use of preferred stock by thrifts in the early 1980's.

• Federal Regulators Expressly Authorized the Issuance of Preferred Stock by Finance Subsidiaries in 1984. On July 12, 1984, the FHLBB issued regulations authorizing a federally chartered savings and loan association or savings bank to establish a subsidiary "whose sole purpose is to issue debt or equity securities that the association is authorized to issue directly . . . and to remit the net proceeds of such issuance to the association. . . ." (49 Fed. Reg. 29,357. 1984)

• In 1983 and 1984, Federal Regulators Encouraged Subsidiary Preferred Offerings Under Certain Circumstances. See opinion letters by FHLBB General Counsel Norman H. Kaiden dated Dec. 12, 1983, and March 23, 1984 (responsibilities of FSLIC as receiver of failed insured institution); 49 Fed. Reg. 29, 357 (1984) (new FHLBB regulations on finance subsidiaries).


S 020590

Sun Feb 11 1996 10:37:49 am

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PM-Whitewater, Bjt.850<

Arkansas Regulator Says She Was Approached About Backing Clintons<

AP Photo WX104<

By LARRY MARGASAK Associated Press Writer

WASHINGTON (AP) A former Arkansas securities commissioner says she resisted efforts by a White House aide and two men with Clinton administration connections to get her to make public statements supporting the president and first lady on Whitewater.

Beverly Bassett Schaffer said in an interview Thursday that her response was "No way. I don't want to be drawn into the political response." She added, "I was sick" of talking about Whitewater.

The contacts with Schaffer were made around the time a Whitewater prosecutor was appointed and they tracked a strategy laid out at a Jan. 7, 1994, White House meeting. According to notes of that meeting, Clinton aides were greatly concerned about what Schaffer would say regarding her discussions with first lady Hillary Rodham Clinton on whether the savings and loan at the center of Whitewater could issue stock.

As the state securities commissioner, Schaffer concluded that the S&L represented by Mrs. Clinton's law firm could issue stock. Schaffer had said during the 1992 presidential campaign she wasn't pressured by Mrs. Clinton and had only one conversation with her.

The handwritten notes of the Jan. 7 meeting were taken by Mark Gearan, who was President Clinton's communications director at the time. The White House this week turned over the notes, months after they were requested, to the Senate Whitewater committee. The panel released them Thursday.

White House lawyer Jane Sherburne told the committee Thursday that the notes had been difficult to locate, because Gearan inadvertently took them with him when he became Peace Corps director in September.

Gearan quoted White House aide Harold Ickes as saying, "Beverly Bassett is so (expletive) important. If we (expletive) this up, we're done."

Ickes is quoted as saying no emissaries from Washington should be sent to Arkansas to contact Schaffer because "it will come out."

"Let's not talk it to death let's just get it done,"

Gearan quotes Ickes as saying. Another time, Ickes is quoted as saying, "item by item make sure her story is OK."

Asked about her interpretation of the meeting, Schaffer said, "It looks to me like they were trying to figure out, 'Who can

Sun Feb 11 1996 10:37:49 am

talk to her? Who is her friend? They were desperate to try to find a way, getting questions about all this, to deal with it."

Describing the contacts, Schaffer said:

In December 1993, at a University of Arkansas basketball game, White House aide Bruce Lindsey talked to her husband, Archie, about whether she was willing to speak out publicly.

Some time later her husband was called by Skip Rutherford, an Arkansas public relations executive and friend of the Clintons. Rutherford asked Archie Schaffer what he thought of his wife having a news conference on Whitewater.

She was approached by a lawyer at her firm, John Tisdale, who suggested that he put together a factual list of documents on Whitewater. Tisdale did so, and "I imagine he gave them to Bruce" (Lindsey), who worked at the firm before going to the White House.

The Gearan memo mentions Tisdale and Rutherford as people who might talk to Schaffer to make sure her story "is OK."

Gearan's notes prompted Sen. Orrin Hatch, R-Utah, to question whether the Clinton White House had been trying to influence the statements of a Whitewater witness.

But White House spokesman Mark Fabiani said presidential aides were simply seeking to have Schaffer repeat comments she made that were supportive of Mrs. Clinton's Whitewater role.

The January meeting apparently stemmed from Clinton's request to aides 2 1/2 weeks earlier asking whether Schaffer would reiterate her comments.

Separately, the Clintons' private Whitewater lawyer, David Kendall, and Sherburne testified Thursday about the mysterious appearance in the White House residence of the billing records outlining Mrs. Clinton's work for Madison Savings and Loan. Madison was owned by the partner of the Clintons in the Whitewater land venture, and failed at a huge cost to taxpayers.

Sherburne said that when the records surfaced, she raised the possibility of having them checked for fingerprints before they were copied. She said the idea was rejected because the Clintons, the Senate committee and others needed the material immediately.

A Clinton aide, Carolyn Huber, has said she discovered the records during the first two weeks in August, laying on a table

in plain view. Not knowing what they were, she packed them away and rediscovered them Jan. 4.

White House logs show Mrs. Clinton was visited Aug. 10 by an attorney whose clients include Seth Ward, an Arkansas businessman whom bank regulators say was a "straw" purchaser

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in a "sham" real estate deal that cost Madison millions of dollars, The Washington Post reported in today's editions.

The attorney, Alston Jennings, told the Post he was asked to meet with Mrs. Clinton by Kendall, but that the two didn't discuss Ward or the real estate deal. Kendall refused to comment.

The Honorable Lloyd Bentsen
Page 3

The standards set forth a code of conduct to which employees of the executive branch must, at a minimum, adhere. Every violation of a statute, regulation or policy does not amount to a violation of the standards of conduct; most such actions are simply violations of the applicable statute, regulation or policy. Moreover, the standards of conduct do not hold individual employees accountable for Governmental systems that fail or for errors of judgment. That is not to say that individual employees are not otherwise accountable for Governmental systems for which they are responsible or for the judgment they exercise. There may be substantial management and program reasons for reviewing an employee's performance in a particular role. That management responsibility is separate and apart from the responsibility that an agency also has to measure the employee's conduct against the standards of conduct.

ANALYSIS

This Office has reviewed the report of the Inspectors General dated July 29, 1994, including the transcripts of the interviews conducted and the documents provided as exhibits. We received copies of the transcripts as they were produced but we relied upon review by the Inspectors General of documentation other than that provided as exhibits.

On the basis of our review, we believe that you might reasonably conclude that the conduct detailed in the report of officials presently employed by the Department of the Treasury did not violate the Standards of Ethical Conduct for Employees of the Executive Branch. However, many of the contacts detailed in the report are troubling. In the course of our review, it appeared that there were some misconceptions on the part of Treasury employees that may have contributed to the fact that those contacts occurred. Treasury employees who performed both Treasury and RTC functions seem to have failed to appreciate which roles they were performing and, thus, which agency's policies and regulations applied. In addition, based on our reading of the testimony, there appears also to have been a misperception that the standard at 5 C.F.R. § 2635.703 regarding the use of nonpublic information was the only provision that need be taken into account in deciding whether information should be conveyed. And, finally, there appears to have been a misunderstanding of the function of recusal.

PERTINENT PROVISIONS OF THE STANDARDS OF ETHICAL CONDUCT

During the period when Independent Counsel Robert Fiske was conducting his investigation and the Inspectors General were waiting to begin their administrative investigation, this Office reviewed the standards of conduct to determine which standards, if any, might apply to the conduct of Treasury officials. With press accounts as our only basis for what conduct might be involved, we

PRIVILEGED

7/6/94
cont.

Big discussion about providing copies of statements. CCH interviewees can have these statements with them - it's up to them. They can't get transcripts from us on Treasury and ETC people.

They have reasonable argument -- if they want to get info on interview. If they interview ETC people -- it will be viewed as pressuring them. On the other hand, if they get our transcripts, it will appear that they're interfering with our investigations: - tough situation.

06083

Federal News Service, JUNE 30, 1994

MR. CUTLER: Well, he had -- as usual, he's busy being president, and he had a very busy morning, and he was informed by one of his aides of the -- of the very quick summary of the results, and I did not speak to him personally myself.

Q But will you sit down and review the details?

MR. CUTLER: Oh, absolutely.

Q What was his reaction on the initial word of this?

MR. CUTLER: I was not in the room when that happened, and he -- when I saw him, he was in a big meeting. But I have no doubt he's very pleased by these results.

Q Mr. Cutler, to you have any idea how long this internal review will take that you are talking about?

MR. CUTLER: We face hearings in the two committees beginning in the last week of July, and it certainly will be done by then.

Q Mr. Cutler, now are you coordinating this review with the treasury department, and how -- could you describe all that coordination and --

MR. CUTLER: Well, I -- as you -- I don't want to speak for Secretary Bentsen, but as I think has been reported, he originally said he was going to ask the Office of Government Ethics to conduct a review. The Office of Government Ethics issues opinions on statements of facts, but has no investigating capability of its own. As a result, Secretary Bentsen asked the Office of Inspector General of the Treasury Department to conduct a review of facts. That is now in process, and I assume at some point the Office of Government Ethics will rule on the set of facts found by the inspector general.

And we will be doing something similar and we will be coordinating with the Treasury inspector general with respect to interviews and exchanges of factual information on the Treasury side and the White House side.

Q Will you be talking to people not now in the White House, such as Bernie Nussbaum?

MR. CUTLER: Oh, no doubt, yes.

Q Mr. Cutler, what is the feeling about the upcoming hearings, and what do you think will be the outcome, what -- do you think that the White House will have to go underground for awhile or --

MR. CUTLER: Helen, we have said we will cooperate in any hearings that Congress decides to hold. Congress, as you know, both houses have passed resolutions calling for hearings in their oversight capacity, hearings that as to subject matter would be coordinated so as not to interfere with Mr. Fiske's investigation. We certainly don't expect to go underground as a result of those hearings. We will prepare for those hearings, we expect them to turn out, we hope, in a very satisfactory manner. And meanwhile, the president and everyone in this White House except me, I guess, will be concentrating on the duties of being president.

Q Do you think the president and Mrs. Clinton may have to testify, or would they testify?

MR. CUTLER: I don't know. There are no precedents, as you know, for direct testimony in a congressional fact-finding hearing, but there certainly are accepted precedents as to how questions can be asked and answers can be furnished and we will cooperate in that within the precedents.

Q Sir, as you pursue your own interviews on the Foster case --

Q Wait! Wait! Just to follow up on that, does that mean that you don't think that they will? Can I infer from that --

Q As you pursue your own interviews on that will you be asking --

Q Somebody's talking.

Q Can I --

MR. CUTLER: Can you decide among yourselves which of you is going to speak?

Q Let me please follow up on that question.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 23, 1994

BY HAND

Jane Sherburn, Esquire
Office of the White House Counsel
The White House
Washington, D.C.

Dear Jane:

Enclosed are copies of the transcripts of all but one of the interviews conducted by the Treasury Inspector General as part of his investigation into contacts between Treasury and White House officials concerning Madison Guaranty. We have not yet received the transcript of the interview of Mr. McLarty.

As we discussed, these transcripts are being provided to you solely to assist you in the preparation for Mr. Cutler's testimony before the House and Senate Banking Committee hearings. You have agreed that the transcripts we are providing to you with this letter will not be disclosed publicly or shown to individuals (other than Mr. Cutler) who may be called as witnesses by either Committee until such time as we advise you that this restriction is no longer necessary. Similarly, you have agreed not to disclose these transcripts to counsel for any such individuals. Please let me know immediately if my understanding of our agreement is not correct.

Sincerely,

Stephen J. McHale
Deputy Assistant General Counsel
(Administrative & General Law)

THE WHITE HOUSE

WASHINGTON

August 3, 1994

The Honorable Donald W. Riegle, Jr.
Chairman
Senate Committee on Banking, Housing
and Urban Affairs
Senate Dirksen 534
Washington, D.C. 20510-6075

Dear Chairman Riegle:

At the hearings yesterday, Senator Bond raised some questions about the ethical propriety of the cooperative arrangements made between the Treasury and the White House concerning their respective investigations into the so-called Treasury-White House contacts.

As you know, Secretary Benisen asked the Office of Government Ethics to review the conduct of Treasury officials for its opinion on their compliance with the Standards of Conduct issued by that office. OGE asked the Treasury and RTC Inspectors General to conduct the fact finding on which it would rely for its conclusions. About the same time, White House Chief of Staff Mack McLarty asked me to undertake a similar review as to the White House officials involved.

Neither the Inspectors General nor I could begin this review until approximately July 1, when Independent Counsel Robert Fiske concluded his investigation of this subject. Mr. Fiske had requested each of us not to interview the Treasury, White House, or RTC officials involved until his own investigation had been completed. This is an understandable request by a careful prosecutor, and we both complied with it.

Since the congressional hearings were scheduled to begin in the last week of July, we each had a very brief time frame in which to complete numerous interviews. The Treasury and RTC Inspectors General naturally wanted to interview the White House officials who participated in these contacts, as well as the Treasury and RTC officials involved. Similarly, we naturally wanted to do the same. It was essential to the reliability of both reviews that they be based on the testimony of all those concerned.

The Inspectors General took sworn depositions, while our review employed an interview format. We permitted the Inspectors General jointly to take sworn depositions of all the White House officials they wanted.

We requested copies of all the deposition transcripts from the Office of the Secretary. On July 23, Treasury provided us with the transcripts after all of the Inspectors General

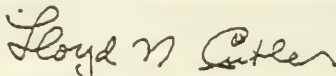
The Honorable Donald W. Riegle, Jr.
August 3, 1994
Page 2

depositions (except for Mr. Ludwig's) had been completed. On this basis we were able to obtain the information necessary for our review without interviewing most of the Treasury and RTC officials (we did interview Mr. Altman, Mr. Steiner, and Ms. Hanson's lawyers).

The arrangements for receiving transcripts were made through the Office of the Secretary. They could not possibly have interfered with the independence of the Inspectors General's investigation or the resulting findings of fact, since we did not receive the transcripts until after all depositions (except one) had been completed and they were preparing their final report. These transcripts were used by me and my staff to complete my review of these matters and prepare for my congressional testimony. We did not provide copies to anyone.

I respectfully submit that these arrangements were entirely proper and did not compromise the independence of either the Inspector General's review or ours. They were simply an efficient way of performing our respective tasks thoroughly within the brief time period available.

Sincerely,



Lloyd N. Cutler
Special Counsel to the President

cc: Honorable Alfonse M. D'Amato, Ranking Minority Member
All Members of the Committee

Mon May 08 1995 10:16:27 am

22 AP 05-08-95 02:36 EST 110 Lines. Copyright 1995. All rights reserved.
PM-Whitewater-Ethics, Bjt,880<
Starr Investigates Behind-Scenes Maneuvering During Ethics
Probe<
By RICHARD KEIL and JOHN SOLOMON Associated Press Writers

WASHINGTON (AP) Behind-the-scenes maneuvering last summer during a government ethics investigation of the Clinton administration's conduct in Whitewater recently has attracted the attention of prosecutor Kenneth Starr, according to officials familiar with the probe.

The ethics review by the Treasury Department's inspector general was set up to be independent of the administration. But a year later, documents and interviews show presidential appointees had frequent contact with the investigators.

An Associated Press examination of the July 1994 Office of Government Ethics-Treasury inspector general investigation found that:

Then-Treasury Secretary Lloyd Bentsen, who was among those whose conduct was being examined in the ethics probe, requested and received a copy of the draft report nine days before the probe was completed.

Presidential aides made at least four attempts to obtain witness depositions before the probe ended. The chief Treasury investigator, Jim Cottos, objected in writing to releasing the transcripts on July 19, 1994, just four days before they were released.

Lloyd Cutler, who served as White House counsel at the time, acknowledged in an interview that he and Bentsen agreed "well before" the inspector general turned over the depositions that such a transfer would occur. Cutler said he didn't know why the inspector general wasn't informed of such an agreement.

White House attorneys used the depositions to identify contradictory accounts and confront aides just before witnesses were to testify before Congress.

"If we found inconsistencies, we would go back to White House officials, and go back over testimony they gave us," Cutler told AP. "And then we would say 'we have heard other reports.'"

"I think it was perfectly appropriate to say that 'this is your testimony to us. There is conflicting testimony. Are you sure that's what you said?'" Cutler said.

Cutler had reached a confidentiality agreement with Bentsen that the material would not be "shared" with witnesses, and he said last week that the White House lawyers did not show the depositions to witnesses or otherwise reveal the source of the information.

Mon May 08 1995 10:16:27 am

The Office of Government Ethics and the Treasury inspector general were asked last year by the administration to investigate independently whether presidential aides or Treasury officials broke any laws or ethics rules in late 1993 and early 1994 when they obtained confidential information about an ongoing Whitewater-related savings and loan investigation.

The two agencies, which are supposed to operate free of political influence, began their probe July 1, 1994.

On the eve of last summer's congressional Whitewater hearings, they issued a report concluding that aides did not break any ethics rules, although it would have been better if their discussions hadn't occurred.

What wasn't known at the time was how much concern Treasury investigators had about the integrity of their own investigation a point that has been made to Starr in recent weeks, said officials familiar with the probe, who spoke only on condition of anonymity.

Over the last month, Starr subpoenaed relevant documents from the Treasury Department and began interviewing investigators, several officials said, also speaking on condition of anonymity.

Among those who have been questioned, the officials said, is deputy inspector general Robert Cesca, who was in charge of the ethics probe.

"I've been instructed by the independent counsel not to discuss this with anyone, so I can't get into it," Cesca said.

In an telephone interview from Texas, Bentsen said he could not recall getting an advance draft. But Treasury officials confirmed that Bentsen requested and got the draft of the inspector general's report on July 22, 1994 as soon as it was written. The final report was completed a week later.

"The secretary was given a copy of the draft report," said Francine Kerner, who at the time served as counsel to the inspector general.

Kerner said she was not consulted about the decision but believed it was appropriate to give Bentsen the draft because "this was not a criminal investigation, this was an administrative report."

One official familiar with Bentsen's request said the secretary requested the draft because he needed to determine whether to discipline two top Treasury officials whose honesty had been questioned Deputy Secretary Roger Altman and General Counsel Jean Hanson.

Both resigned after congressional criticism of their testimony.

Mon May 08 1995 10:16:27 am

The same day Bentsen got the draft report, he belatedly turned over to the inspector general a calendar notation disclosing that he had met with Altman and Hanson on Feb. 1, 1994 the afternoon before the two went to a controversial White House meeting at the center of the ethics review. Treasury officials said they believed the belated production of the document was a coincidence.

Several sources said Starr had shown substantial interest in why the transcripts of the sworn depositions were given to the White House before the investigation was completed.

AP first reported the transfer last summer. The move was widely criticized by Republicans and outside ethics experts. The transfer of the depositions culminated weeks of contacts between the Treasury and White House, according to the interviews and documents.

LEVEL 1 - 112 OF 138 STORIES

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October 31, 1993, Sunday, Final Edition

SECTION: FIRST SECTION; PAGE A1

LENGTH: 1421 words

HEADLINE: U.S. Is Asked to Probe Failed Arkansas S&L; RTC Questions Thrift's Mid-'80s Check Flow

SERIES: Occasional

BYLINE: Susan Schmidt, Washington Post Staff Writer

BODY: The Resolution Trust Corp. has asked federal prosecutors in Little Rock to open a criminal investigation into whether a failed Arkansas savings and loan used depositors' funds during the mid-'80s to benefit local politicians, including a reelection campaign of then-governor Bill Clinton.

About three weeks ago, the RTC forwarded to U.S. Attorney Paula Casey in Little Rock information about 10 matters arising from transactions at the now-defunct Madison Guaranty Savings & Loan that warrant criminal investigation, according to government sources familiar with the probe. A written summary of the referral has been sent to the Justice Department, according to sources.

The package includes questions about whether a series of checks written on Madison accounts ended up in Clinton's campaign fund. The sources said there is no indication Clinton had personal knowledge of or involvement in the transactions, and the White House said yesterday there would be no way Clinton would have known if money from Madison accounts had been improperly used to make campaign contributions.

The RTC request, based on a broad probe of the S&L's financial affairs, also asks for further federal investigation of Madison's dealings with current Arkansas Gov. Jim Guy Tucker (D), the sources said.

Tucker's companies borrowed more than \$ 1 million from the S&L for real estate and other ventures during the mid-1980s, when he was at a law firm that represented Madison. Some of the loans were made on what appear to be favorable terms and caused large losses to the S&L. Tucker's office did not respond to requests for an interview.

The RTC, which disposes of S&Ls, took over Madison after its 1989 failure, expected to cost taxpayers an estimated \$ 47 million.

In examining the Madison transactions, the RTC has asked Casey to determine whether checks to the Clinton campaign were paid from overdrawn accounts with the authorization of Madison's owner, James B. McDougal, or whether Madison loans intended for other purposes were used for campaign contributions. McDougal is a longtime friend and business partner of Bill and Hillary Rodham Clinton and was an economic development aide during Clinton's first term as governor.

In an interview, McDougal said he had no knowledge of any Madison funds being used improperly. "I never approved an overdraft in the entire time I was down there," he said.

Clinton aide Bruce Lindsey said yesterday that McDougal helped organize an April 1985 fund-raiser to pay off Clinton's 1984 campaign debts. Lindsey said he does not know how much was raised during the fund-raiser and does not have the state campaign records, which are routinely discarded after five years. But he said he had seen a deposit slip noting that McDougal contributed \$ 3,000, which was not in excess of campaign limits at the time.

Lindsey said he understands that the RTC is questioning the "source of funds" for that check and perhaps others.

"How in the world would we have any knowledge of that?" Lindsey said. "Where the funds came from for that check -- there's absolutely no way we would know or have questioned that."

RTC investigators have examined irregular Madison transactions that took place in April 1985 and have attempted to find out who endorsed and deposited a series of checks made out to Clinton or the gubernatorial campaign, one source familiar with the probe said. Lindsey said it would not be unusual for campaign contributors to make out checks in Clinton's name -- and that was done by some at the 1985 fund-raiser -- but that those checks would be placed in the campaign fund, which was maintained at Arkansas' Bank of Cherry Valley.

RTC investigators have been unable to secure bank records that would show where money from the checks went, the sources said.

The RTC takes the step of referring cases to law enforcement agencies when its own investigation of a failed S&L's books and loan files raises "aggravated suspicion" of possible criminal activity. Referrals are often

made to the FBI or the Justice Department on limited evidence. The RTC has limited subpoena powers and no authority to bring criminal cases itself.

Sources familiar with the Madison referrals said Casey's office will have to evaluate whether transactions dating back to the mid-'80s warrant criminal investigation. Casey declined to comment.

RTC spokesman Steve Katsanos would neither confirm nor deny whether the agency asked Casey to further investigate Madison. "We have found Madison to be a very interesting institution and we conduct investigations in cases of all failed S&Ls," he said.

Sources said that the RTC also asked Casey to investigate whether McDougal had violated S&L regulations. He was acquitted of bank fraud in 1990 in a case that focused on bonuses and profits he earned for real estate deals involving the development subsidiary, Madison Financial Corp.

The RTC action comes after a long-running probe of Madison that began soon after the S&L was taken over by federal regulators. Before it was taken over, regulators were critical of Madison's management, contending it permitted conflicts of interest, inflated real estate appraisals, and unsupported loan documentation and that it failed to collect debts, state records show.

The RTC probe intensified about a year ago as investigators examined loans and financial transactions involving a small group of borrowers, including some S&L officers and directors and local politicians who were Madison customers.

As part of the investigation, the RTC went to extraordinary lengths to trace real estate transactions involving Whitewater Development Corp., a land company Bill and Hillary Clinton jointly owned with McDougal and his former wife, Susan McDougal, according to government sources. The corporation maintained an account at Madison, and sources said Whitewater's activities are among the matters referred to Casey for further investigation.

Whitewater, which the Clintons have described as a money-losing venture that developed land in the Ozark Mountains, was formed in 1978.

There was protracted debate within the RTC about whether Madison transactions involving the Clintons should be included in documents sent to Casey, because the investigation focuses primarily on the handling of S&L funds by Madison officials, sources said.

The RTC's investigators who are based in Kansas City were prepared to forward the information earlier this fall, but the decision to send the referrals on was not made until early October, the sources said.

Madison, which grew from a tiny Arkansas thrift into a bustling institution during McDougal's years there, has surfaced before as an issue for Clinton. During his presidential campaign last year, he was faced with questions about whether his administration in Arkansas gave favorable treatment to the troubled S&L in the mid-1980s when it was seeking state permission for new ways to raise money.

Hillary Clinton, then a lawyer with the influential Rose law firm of Little Rock, acted as an attorney for Madison when it went before the State Securities Commission in 1985. An issue was raised during Clinton's 1992 presidential campaign about whether her work for the S&L was a conflict of interest. She said her legal work had been minimal.

Controversy also arose during the 1992 campaign over Whitewater's finances. Press investigations of Madison showed that Susan McDougal's advertising firm, which was associated with Madison, deposited money in Whitewater's account at the S&L to cover an overdraft.

Under intense media scrutiny, Denver lawyer James Lyons was retained by the campaign to do a report on Whitewater's business dealings and he found the Clinton's lost money on the investment and had done nothing improper. Officials said they could not locate many of the records that might answer questions about the transactions.

Tucker, a former congressman and state attorney general, was involved in a number of Madison loans, which went to fund small real estate deals, Tucker's cable television company and major industrial projects.

Madison loaned one of Tucker's companies, Castle Water and Sewer, more than \$ 1 million. His company was to provide service to the Castle Grande mobile home park, a Madison Financial Corp. development near Little Rock, but the S&L ended up losing \$ 861,000 on the loan, the RTC said in an 1990 court document.

Staff writers Michael Isikoff in Washington and Howard Schneider in Little Rock contributed to this report.

LEVEL 1 - 107 OF 138 STORIES

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November 2, 1993, Tuesday, Final Edition

SECTION: FIRST SECTION; PAGE A1

LENGTH: 1389 words

HEADLINE: Clintons' Former Real Estate Firm Probed; Federal Inquiries Focus on Financial Activities of Other Arkansans

SERIES: Occasional

BYLINE: Michael Isikoff, Howard Schneider, Washington Post Staff Writers

BODY: A real estate firm that was half-owned by President Clinton and Hillary Rodham Clinton is under scrutiny in two separate federal investigations that focus on the financial activities of prominent Arkansas business and political figures, according to federal officials and law enforcement sources.

The company, Whitewater Development Corp., has been a recurring source of controversy for the Clintons. The company was formed to develop vacation and retirement homes on the White River in a remote section of the Ozarks. The Clintons have said repeatedly that Whitewater was a debt-ridden, money-losing venture in which they were passive investors.

In recent interviews and public statements, David Hale, a former municipal judge in Little Rock under indictment on charges of defrauding the federal Small Business Administration, has contended that during the mid-1980s Bill Clinton and others pressured him to make SBA-backed loans to help get bad loans off the books of a failing S&L, Madison Guaranty Savings and Loan. The White House has repeatedly denied that any such conversations took place.

During an FBI raid last July on the offices of Hale's SBA investment firm, agents seized documents that included records of a \$ 300,000 loan to a public relations company headed by Susan McDougal, a partner in Whitewater. Some of the proceeds of the loan -- intended to aid "socially or economically disadvantaged" borrowers -- were used to finance a large purchase of rural property from the International Paper Co. by Whitewater in October 1986, according to a participant.

As The Washington Post reported Sunday, the federal Resolution Trust

Corp. has been scrutinizing Whitewater's land purchases as part of a separate probe into the use of depositor funds from Madison, which Susan McDougal's husband, James McDougal, controlled. The RTC has asked U.S. Attorney Paula Casey in Little Rock to open a broad probe into whether Madison's depositor funds were improperly used to benefit local politicians. Madison failed in 1989 at an estimated \$ 47 million cost to taxpayers.

Sources familiar with the probe also say that RTC investigators have examined Whitewater's purchase of the International Paper Co. land and forwarded questions to Casey. Shares of Whitewater were equally owned by the Clintons and McDougals.

The White House has said that Clinton, who was then serving his third term as Arkansas governor, and his wife were not aware of the loan to Susan McDougal or of Whitewater's purchase of the International Paper Co. land. The purchase, by far the corporation's largest transaction, was not disclosed in documents released by the Clintons last year to explain Whitewater, which became an issue during the presidential campaign.

"There's no way in the world that the Clintons would know about something like that," said senior White House aide Bruce Lindsey when asked about the International Paper Co. purchase. "It's not as though they were sitting in a corporate office somewhere passing corporate documents around."

Justice Department officials have said in recent interviews that last summer's FBI raid was related to an investigation of Hale's activities as head of Capital Management Services Inc., the SBA-backed investment firm. The investigation is not focusing on the president or his wife, officials said.

Martin Teckler, deputy general counsel to the SBA, would not comment on Capital Management, which is now in receivership. The loan to Susan McDougal's firm is in default and the SBA is seeking to recover the funds. As a general matter, Teckler said, "The agency is definitely interested in seeing to it that any misrepresentations to obtain funds from the agency are pursued."

Questions about the Susan McDougal loan were raised publicly last September by Hale after he unsuccessfully sought to have the fraud charges dropped in exchange for his information about the financial dealings of other Arkansas political figures. Justice Department officials said he had "no tangible information" that would justify dropping felony charges against him.

Hale, who first aired his charges in the Arkansas Democrat-Gazette, said

in an interview that Bill Clinton and James McDougal repeatedly pressed him to make the loan to Susan McDougal's firm, Master Marketing. Hale said he was told by James McDougal the loan could help with "cleaning up" problems at Madison Guaranty, which was then under pressure from federal regulators.

"Bill Clinton and I never discussed any loan with David Hale any time," said McDougal, who was acquitted of federal bank fraud charges involving Madison in 1990. He added that he was willing "to take a lie-detector test on national television absolving the president of this ridiculous accusation."

Hale said in a recent interview that McDougal first told him in the fall of 1985 that there were "some members of the political family [in Arkansas] that had some loans that might be in question at Madison. "

Susan McDougal said in an interview she did not remember the Master Marketing loan. James McDougal said the loan proceeds were deposited at Madison and that he used part of the money to purchase the property for Whitewater from International Paper.

He said the Clintons were not informed of the purchase. "The Clintons never knew it took place, were never consulted on it. . . . If you knew the Clintons, they were the last goddamn people on Earth you'd consult on a business deal."

Land records in Pulaski County, Ark., show that Whitewater bought 810 acres from International Paper in October 1986 for \$ 550,000. Whitewater made a \$ 100,000 down payment and International Paper agreed to finance the balance, records show. International Paper spokeswoman Kathleen Willemin declined to comment specifically on the sale, but said the company makes several hundred such sales a year and often finances them.

The transaction was potentially sensitive for Clinton. A year earlier, he had negotiated major tax concessions for International Paper to keep it from moving two of its plants out of the state.

Two months after the purchase, James McDougal transferred title to the property from Whitewater to a company owned by him and his wife. Whitewater remained obligated, along with the new company, for the mortgage loan and was later named in a lawsuit International Paper filed to reclaim the property after a default in mortgage payments.

Whitewater was formed initially to develop 200 acres of land in the Ozarks. At the time, James McDougal was serving in Clinton's first gubernatorial administration as an economic development aide.

Several years after Whitewater was started, Hillary Clinton and her law firm, the Rose firm, represented Madison before state regulators while Clinton was governor. Questions about possible conflicts became an issue in Clinton's 1992 campaign.

Clinton campaign officials hired James Lyons, a Denver attorney, to issue an accounting of Whitewater's finances. While reporting that the Clintons had invested \$ 70,000 of their own funds in the company, Lyons's report depicted Whitewater as a debt-ridden company that had done virtually no business for years. Clinton aides said then that remaining questions about Whitewater could not be addressed because many of its records were missing.

Records show that Whitewater failed to file corporate tax returns during a three-year period in which the Clintons remained half owners of the firm. This omission was discovered last December when the late Vincent Foster, the Clintons' personal attorney and later deputy White House counsel, met McDougal to execute the sale of the Clintons' interest in Whitewater to McDougal.

Foster took responsibility for filing the returns and later hired a Little Rock accountant who brought the returns to the offices of McDougal's lawyer on June 21, 1993. The copies show that Whitewater realized no income during that period.

When copies of Whitewater's tax returns were requested last year, Clinton campaign officials directed reporters to McDougal.

But McDougal said in a recent interview he delivered his copies of Whitewater's financial records to the governor's mansion in 1987.

"They assumed the responsibility for filing the tax returns up until now," he said.

Staff writer Susan Schmidt contributed to this report.

1ST STORY of Level 1 printed in FULL format.

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November 10, 1993, Wednesday, Final Edition

SECTION: FIRST SECTION: PAGE A1

LENGTH: 991 words

HEADLINE: U.S. Steps Up Investigations In Arkansas;
Justice Dept. Names 3 As Prosecution Team

SERIES: Occasional

BYLINE: Michael Isikoff, Susan Schmidt, Washington Post Staff Writers

BODY:

The Justice Department yesterday named a special three-member prosecution team to oversee politically sensitive investigations into a federally backed investment company and a failed Arkansas savings and loan that had ties to prominent figures in the state, including President Clinton.

The move came after U.S. Attorney Paula Casey formally recused herself and her office from any further involvement in the probes. After consulting with Deputy Attorney General Philip B. Heymann and his staff, acting criminal division chief John C. Keeney dispatched three career lawyers from the fraud section, headed by Donald B. Mackay, a former U.S. attorney in Illinois, to Little Rock to take over the investigations.

Casey, a Clinton appointee and volunteer in some of Clinton's gubernatorial campaigns, had resisted earlier requests that she recuse herself. But late last week, following news media reports about the probes, she informed department officials that she and her staff were stepping aside "because of their familiarity with some of the parties and the need to ensure that there be no misperceptions about the impartiality of the investigation," according to a department statement.

The investigations have received widespread attention in recent days following disclosures that the Resolution Trust Corporation had asked Casey's office to open a criminal inquiry into a number of matters relating to the now-defunct Madison Guaranty & Trust, including the possible improper use of depositors' funds for contributions to Clinton's 1984 reelection campaign as governor of Arkansas.

Yesterday, Republicans on the House Banking Committee asked Chairman Henry B. Gonzalez (D-Tex.) to open hearings on Madison, which had business relationships with a partnership half-owned by Bill and Hillary Clinton and with companies formerly controlled by Arkansas Gov. Jim Guy Tucker (D). Rep. Jim Leach (Iowa), the committee's ranking Republican, called Madison "a rogue thrift" and said Republicans are concerned that "Keating-like influence peddling may have occurred, although on a smaller, state-centered scale" -- a reference to the scandal involving five U.S. senators and S&L executive Charles H. Keating Jr. Madison failed in 1989 at an estimated \$47 million cost to taxpayers.

The Washington Post, November 10, 1993

Casey's office also is probing Capital Management Services, a Small Business Administration-backed investment fund that provided a \$ 300,000 loan in April 1986 to Susan McDougal, a former business partner of Clinton and the wife of Madison's owner, James McDougal. Part of the loan was used by Whitewater Development Corp., the firm half-owned by the Clintons, to buy a tract of rural land near Little Rock. White House officials have said the Clintons had no knowledge of the purchase, which was made by the McDougals.

David Hale, a retired municipal judge who has been indicted on fraud charges, has publicly alleged that he was pressured by Clinton to make the loans as a means of shoring up Madison's books -- a claim that has been flatly denied by the White House.

The Arkansas probes have been repeatedly played down by White House and Justice Department officials, and last week press secretary Dee Dee Myers dismissed Hale's allegations as stories concocted to "save his butt."

Casey's recusal is the latest sign that the investigations are being taken more seriously. Late last week, Associate Attorney General Webster L. Hubbell, a former partner of Hillary Clinton in the Rose law firm in Little Rock, sent a memo to Attorney General Janet Reno and Heymann stating he was also recusing himself and his entire staff from the matter. The Rose firm had previously represented Madison, and Hubbell later represented the RTC in a lawsuit against Madison's accountants.

Hubbell is the No. 3 official in the Justice Department; his responsibilities include overseeing civil matters relating to the savings and loan industry. Department officials said Hubbell would have had no direct oversight over the Little Rock criminal probes anyway.

Randy Coleman, Hale's lawyer, who had initially sought appointment of an independent counsel last September in the days preceding Hale's indictment, said yesterday that Casey's recusal was "kind of a step in the right direction" although a "little less" than what he requested.

"David Hale always said he wanted the playing field to be a little more level," said Coleman. "You would hope this means an objective investigation."

Casey, a former legislative aide to Sen. Dale Bumpers (D-Ark.), in September turned down Coleman's request that Hale be granted immunity in exchange for information about Clinton and other political figures in the state who had gotten loans from Capital Management, including Tucker.

After consulting with high-level department officials, Casey said she saw no reason to step aside and that Hale's allegations lacked "specifics."

That came one month after Coleman had contacted the White House about Hale's allegations, calling associate counsel William Kennedy in mid-August. "I told him we have clients with mutual problems developing in a federal investigation down here," Coleman said yesterday.

A few days later, Coleman said, Kennedy called back and asked him if it would be alleged there were any "face to face" meetings between Clinton and Hale -- a question that Coleman said he answered in the affirmative. But Coleman said Kennedy did not accept his offer to meet with him in Washington to discuss the

The Washington Post, November 10, 1993

matter.

Coleman said he was not asking Kennedy to intervene in the case. White House senior aide Bruce Lindsey said that Kennedy, a former partner of Hillary Clinton and Hubbell in the Rose law firm, discussed Coleman's statements with White House counsel Bernard Nussbaum, but neither took any action or alerted anyone else in the White House. "Both he and Bernie didn't do anything with the information because they didn't take it seriously," said Lindsey.

LANGUAGE: ENGLISH

LOAD-DATE: November 10, 1993

LEVEL 1 - 91 OF 138 STORIES

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November 11, 1993, Thursday, Final Edition

SECTION: FIRST SECTION; PAGE A3

LENGTH: 854 words

HEADLINE: Dealings of Clinton Partners Were Referred to Justice Dept. in 1992

SERIES: Occasional

BYLINE: Susan Schmidt, Michael Isikoff, Washington Post Staff Writers

BODY: Resolution Trust Corp. investigators examining the mid-1980s affairs of a failed Arkansas savings and loan found a series of irregular transactions involving Whitewater Development Corp., a company then half-owned by President Clinton and his wife, that suggested it was used by the Clintons' business partners in a check-kiting scheme to drain funds from the thrift.

The RTC, according to documents and interviews with sources familiar with the probe, told federal prosecutors more than a year ago that Bill and Hillary Clinton and other principals in a dozen corporations doing business with Madison Guaranty Savings & Loan during the mid-1980s could possibly have benefited from the alleged scheme, though there is no evidence they had direct knowledge of it.

But the agency, which named the Clintons' business partners as targets in the October 1992 referral to the Justice Department, said further investigation was needed to find out where money ended up after passing through a Whitewater account at Madison.

The Justice Department did not notify the RTC of its disposition of that referral until last month, when federal prosecutors declined to open a criminal inquiry. But federal prosecutors have decided to act on a second, more detailed request from the RTC to investigate similar allegations regarding Madison and its owner, James McDougal.

The Clintons repeatedly have denied doing anything improper in connection with Whitewater and have said that it was a money-losing investment run by McDougal and his wife, Susan.

The RTC's first criminal referral last year, filling more than 15 pages, outlined dozens of instances of questionable loan transactions involving several Arkansas banks and 12 corporations affiliated or doing business with Madison, sources said. They said principals of the corporations included the Clintons, the McDougals and Arkansas Gov. Jim Guy Tucker (D).

During the first half of 1985, the sample time period examined in detail by the RTC, Whitewater issued 10 checks for more than \$ 70,000. Several were written to the Bank of Cherry Valley, where Clinton had a campaign account. Unable to obtain the bank's records, the RTC could not determine if the checks were deposited in the account.

Five of the checks issued by Whitewater totaling more than \$ 60,000 were overdrafts that eventually were covered by funds from other alleged shell corporations, or from Madison Financial Corp., the S&L's wholly owned real estate subsidiary.

One \$ 30,000 check was issued on Whitewater's account to McDougal with the notation "loan repayment," though sources said the RTC found no records of any loan from McDougal.

That check resulted in an overdraft that was covered by a deposit of \$ 30,000 from Madison Financial Corp. (MFC). In April 1985, according to S&L documents, MFC deposited \$ 30,000 directly into Whitewater's account as a "prepayment" on a 1985 bonus to McDougal, MFC's president.

Some of the money that went through the alleged shell corporations to Whitewater came from bank loans, according to sources familiar with the RTC referral. Those corporations were created legally but appeared to have no business purpose, said a source familiar with the probe.

Among the "shell" companies cited in the first referral were ventures named "Tucker-Smith-McDougal," "Smith-Tucker-McDougal" and a third named "Smith-McDougal." Also cited were two Madison real estate ventures.

The RTC's initial request for criminal investigation of the S&L's affairs came after a long-running politically sensitive probe of Madison and McDougal, a longtime friend of the Clintons who, with his wife, jointly owned the small real estate venture that has been a continuing source of controversy for the president.

The first RTC referral was reviewed earlier this year by career Justice Department officials, who concluded there was insufficient evidence to warrant further investigation. The RTC says it was never informed.

Two weeks ago, U.S. Attorney Paula Casey told the RTC in a letter that her office "concurs" with the earlier Justice Department conclusion that there was "insufficient information" in the first referral to warrant a law enforcement probe, said sources familiar with the contents of the letter.

"This was not a review conducted by Paula Casey," said Carl Stern, the Justice Department's chief public affairs spokesman. "The information should have been communicated to the RTC months earlier. . . . As far as I know, Paula Casey didn't participate in any decision-making."

The second RTC referral forwarded early last month included questions about the possible diversion of Madison depositor funds into accounts at other institutions maintained by Clinton's 1984 campaign for reelection as Arkansas governor.

Casey last week recused herself from the continuing investigation of Madison. A Clinton appointee and volunteer in some of Clinton's gubernatorial campaigns, she said she stepped aside because of her "familiarity with some of the parties." She declined to comment yesterday on why she had not recused herself two weeks ago on the first referral.

1ST STORY of Level 1 printed in FULL format.

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November 2, 1993, Tuesday, Late Edition - Final

SECTION: Section A; Page 20; Column 1; National Desk

LENGTH: 1886 words

HEADLINE: U.S. Investigating Clinton's Links to Arkansas S.& L.

BYLINE: By JEFF GERTH with STEPHEN ENGELBERG. Special to The New York Times

DATeline: WASHINGTON, Nov. 1

BODY:

Federal investigators are raising questions about ties between President Clinton and an Arkansas businessman, a political patron of Mr. Clinton in the 1980's whose failed savings and loan is now under investigation.

Government officials and lawyers familiar with the case said the President was neither the subject nor a target of the investigation, which is still in its early stages.

But the inquiry focuses on questionable financial dealings involving the savings and loan, Madison Guaranty, from which Mr. Clinton benefited both personally and politically. The savings and loan's owner, James McDougal, was one of Mr. Clinton's closest associates in Arkansas and was, at various times, his business partner, political fund-raiser, family banker and senior aide when Mr. Clinton was Governor of Arkansas.

Advantageous Relationship

Mr. Clinton's banking commissioner advised him in 1983 that Mr. McDougal was engaged in questionable banking practices. But the two men nevertheless maintained a business and political relationship throughout the 1980's that helped both men. When Mr. Clinton needed someone to raise \$35,000 to retire debts from his 1984 re-election campaign, he turned to Mr. McDougal.

Mr. McDougal denies any wrongdoing. His lawyer, Sam Heuer, said his client was under investigation by the United States Attorney in Little Rock, Ark. Last month the Federal agency that disposes of failed savings and loans, the Resolution Trust Corporation, asked the United States Attorney in Little Rock to examine several possible violations of law in the operations of the savings and loan, including transactions that may have helped Mr. Clinton pay his campaign debts.

According to Federal officials, court documents and lawyers familiar with the case, the two Federal agencies have been trying to find out whether more than \$250,000 in business loans was improperly diverted from Madison in April 1985 to several sources, including Governor Clinton's re-election campaign.

The officials said the campaign received \$12,000 in cashier's checks from Madison, some of which appeared to have been paid for by the business loans. The former Clinton aide who deposited the money said neither she nor Mr. Clinton

The New York Times, November 2, 1993

was aware of any irregularities about its source.

Investigators have asked prosecutors to see whether the campaign contributions were linked to efforts by Madison to win state approval for an unusual plan to raise new capital by issuing stock, the officials said.

Finally, prosecutors are studying a \$300,000 loan from a federally sponsored lending company to Mr. McDougal's wife, Susan. The man who made the loan, David Hale, was indicted in September on unrelated charges.

In an effort to win leniency from prosecutors on the eve of his indictment, Mr. Hale offered prosecutors information about Mr. Clinton and other Arkansas politicians, but was unable to reach a plea agreement. Mr. Hale asserted in interviews with reporters that Mr. Clinton had personally pressed him to make the \$300,000 loan.

A White House spokesman said Mr. Clinton had no recollection of any such conversation. Mr. Hale said Mr. McDougal told him the money would help conceal earlier favors for the Governor.

New Prosecutor

The criminal investigations of Madison and Mr. Hale's lending activities are being directed by the new United States Attorney in Little Rock, Paula J. Casey. On Sunday, The Washington Post disclosed the Resolution Trust Corporation's request to Ms. Casey, and The Wall Street Journal reported on the inquiry today.

Mr. Hale's lawyer has questioned Ms. Casey's independence. She was a volunteer in Mr. Clinton's campaigns for governor and was his student at the University of Arkansas law school. Ms. Casey would not discuss the case but told Mr. Hale's lawyer that she was not afraid to prosecute anyone.

Mr. McDougal, who is at the heart of the inquiry into the savings and loan's affairs, continues to blame regulators and prosecutors for his downfall, calling them overzealous. He was acquitted of Federal bank fraud charges involving Madison in 1980.

Mr. McDougal met Mr. Clinton in the late 1960's, when both men worked on the staff of Senator J. William Fulbright, the Arkansas Democrat and longtime chairman of the Senate Foreign Relations Committee.

Ozarks Real Estate Deal

In 1978, the McDougals brought Mr. Clinton and his wife, Hillary, into a real estate deal, buying 200 acres of the Ozarks in northern Arkansas. Later, the property was transferred to their company, Whitewater Development, with both couples sharing the liabilities and potential profits.

When Mr. Clinton first took office as Governor in 1979, Mr. McDougal joined him as an economic development aide. But he soon returned to business, buying a bank in northern Arkansas and a savings and loan in a small town about 75 miles from Little Rock.

By 1983, Mr. McDougal's bank was in trouble with Arkansas regulators. The state's banking commissioner, Marlin S. Jackson, ordered the bank to stop

The New York Times, November 2, 1993

making imprudent loans. Mr. Jackson, a Clinton appointee, said in an interview last year that he told Mr. Clinton at the time of Mr. McDougal's questionable practices.

Meanwhile, the savings and loan continued to grow, from \$6 million in assets to more than \$100 million by 1985. It opened a branch in Little Rock near the Statehouse and began making loans to prominent Democrats, including Mr. Fulbright and Jim Guy Tucker, a Little Rock lawyer who is now Governor of Arkansas.

Records also indicate that Madison was helping Whitewater, the real estate business owned by the Clintons and McDougals. In 1984 and 1985, as the company continued to post losses, check ledgers show that the company had frequent, sizable overdrafts on its account at Madison.

Also in 1985, Madison Marketing, a McDougal family business that derived all of its revenue from the savings and loan, provided the funds for Whitewater to make a \$7,322 payment on a loan taken out by Mr. Clinton from another bank, according to bank records.

The Clinton Presidential campaign said last year that the McDougals had contributed a disproportionate share of Whitewater's money, \$92,000 against \$68,000 by the Clintons.

In interviews last year, Mr. McDougal seemed to view his relationship with Mr. Clinton as unbalanced. On the one hand, he said, "Bill never turned me down on something I asked for, and I only asked for it occasionally."

But on the other hand, Mr. McDougal said, he helped the Clintons in numerous ways, from agreeing to hire Mrs. Clinton to do additional legal work at Madison, to paying on Mr. Clinton's behalf part of the loans on the Ozark property.

Favors on Both Sides

Mr. McDougal said in the same interviews that 1985 was a year of favors on both sides. In early 1985, he said, Mr. Clinton asked him to raise enough money to retire about \$35,000 in debts left from his 1984 campaign.

Betsey Wright, who ran the 1984 campaign, confirmed that Mr. Clinton had made the request and said it led Mr. McDougal to be the host for a small fund-raising event in 1985 at the savings and loan. Mr. Clinton attended that event.

As for the source of the donations, Ms. Wright said: "I'm sure we would have no idea. Any hint of a problem and we would not have accepted."

At least \$12,000 worth of cashier's checks issued by Madison wound up in the campaign's coffers in April 1985, Federal officials said. Some came from a business loan that Madison made to a McDougal associate and was never repaid. The rest was from Mr. McDougal's personal and corporate accounts, the officials said.

Days before Mr. McDougal held his fund-raising event for Mr. Clinton, Madison learned that it faced a serious problem. Federal regulators were concerned by the savings and loan's rapid growth and the failure to have on

The New York Times, November 2, 1993

hand enough capital to meet Federal requirements.

State Approval Needed

Madison's proposal was to raise money to meet the capital requirement by selling a form of stock never issued before in Arkansas by a savings and loan. Because it was a state-chartered institution, Madison needed the approval of Arkansas regulators.

The savings and loan did not rely on its usual outside counsel for this issue, turning instead to the Rose law firm of Little Rock, where Mrs. Clinton was a senior partner. In written answers to questions last year, she said she met with Mr. McDougal once in April 1985 to discuss working for Madison. She declined to elaborate.

In the documents forwarded to prosecutors, investigators for the Resolution Trust Corporation have questioned whether the campaign contributions were connected to Madison's effort to get state regulators to approve its stock plan. Federal officials say. By May, Arkansas regulators had concurred that the stock plan was legal, but it was never carried out.

James M. Lyons, a Denver lawyer who reviewed Mr. Clinton's dealings with Mr. McDougal for the Clinton Presidential campaign last year, said today that there was no connection between the contributions and the effort before the state regulators.

Mr. McDougal, in interviews, denied any impropriety in connection with the campaign contributions or the attempt to win approval for the stock plan.

At the end of 1985, Mr. McDougal said last year, Mr. Clinton did do him another favor, helping set up a state revenue office in a Little Rock building owned by a subsidiary of Madison.

By the fall of 1985, Mr. McDougal faced mounting pressure, some of which came from the prospect of a Federal audit scheduled for early 1986.

David Hale, a Democratic municipal judge in Little Rock who operated a federally sponsored lending company, said he was approached by Mr. McDougal in late 1985 to make loans that would help the "political family" of Arkansas Democrats.

Mr. Hale's company was part of a Small Business Administration program intended to provide capital for businesses owned by "socially or economically disadvantaged" people. Mr. Hale was recently indicted on charges of misleading the Government about the condition of his lending company. He has since resigned as a judge and is contesting the charges.

In interviews before his indictment, Mr. Hale said Madison financed a land deal in February 1986 in which he was paid hundreds of thousands of dollars more than the property was worth. Court records show that this loan was never repaid, resulting in a loss of \$672,000 to taxpayers.

DEPARTMENT OF THE TREASURY
WASHINGTON DC 20220

JUN 27 1994

MEMORANDUM FOR JEAN E. HANSON
GENERAL COUNSELFROM: ROBERT P. CESCA *Robert P. Cesca*
DEPUTY INSPECTOR GENERAL

SUBJECT: Provision of Legal Advice and Services to OIG

As you know, the Inspector General has been requested to carry out an investigation into communications between Treasury employees and White House staff concerning the collapse of Madison Guaranty Savings and Loan, and related matters. It is important that the Office of Counsel to the Inspector General, headed by Francine Kerner, continue to provide independent legal advice and services during the course of the investigation.

Given the nature of the inquiry, we have therefore agreed that Ms. Kerner and members of her staff will report solely to the Inspector General on any matters relating to the investigation. Neither Ms. Kerner nor her staff will communicate any information about the substance of this inquiry without specific authorization from the Inspector General.

In addition, a separate job element, concerning the provision of legal advice and services in connection with this specific investigation, will be added to Ms. Kerner's performance standards for rating periods July 1, 1993 through June 30, 1994, and July 1, 1994 through June 30, 1995. The determination on relative job significance and job element performance for this job element will be at the sole discretion of the Inspector General. Moreover, we have agreed that the overall rating of Ms. Kerner's performance in each of these rating periods will need to receive the concurrence of the Inspector General.

By taking these steps, the agency will help allay any misperception that legal advice and services are being affected by people whose activities may be subject to review. Should you have any questions concerning this arrangement, please feel free to call me directly.

cc: Dennis J. Foreman
Francine J. Kerner



United States

Office of Government Ethics

1201 New York Avenue, NW, Suite 500

Washington, DC 20005-3917

August 4, 1995

The Honorable Charles T. Canady
 Chairman
 Subcommittee on the Constitution
 Committee on the Judiciary
 U.S. House of Representatives
 Washington, DC 20515

Dear Mr. Canady:

I received your letter of July 25, 1995 and welcome the opportunity to answer the questions you posed. We recognize that because of statements made at the hearings on the contacts between officials of the Department of the Treasury and the White House our role was not well understood or in some instances was totally misunderstood.

If I may, before answering your questions, I would like to emphasize a few points about our role.

- The Office of Government Ethics (OGE) does not normally serve as the primary analyzer of facts developed by a fact finder; we believe that is the role of the agency that employs the individual whose conduct is in question. In this instance I agreed to do so because of the Treasury ethics official's involvement in the matter. Even so, OGE did not present Secretary Bentsen with a finding; he received an analysis. As we pointed out in our letter, he was required to make the finding.

- OGE does not consider the analysis it provided to Secretary Bentsen to be a "report," as that term is typically used. However, our analysis was based upon an investigative report of the Inspectors General (IG).¹ We have noted in the press that the term "report" has been used interchangeably for our analysis, the IGs' investigative report, the Secretary's press release and even Mr. Cutler's written testimony. Because we did not make any findings or conclusions but only advised the Secretary on what he might reasonably find or conclude, we prefer to refer to our letter to him as an analysis. We recognize these errors in terminology in part began with the Department of the Treasury's addition of a

¹That report consisted of four volumes of materials. Included in those volumes was an executive summary of the contacts, documentary exhibits and over 1000 pages of transcripts of sworn statements of individuals interviewed by the OIGs.

The Honorable Charles T. Canady
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cover sheet to our analysis titling it a report and then releasing it in that form to the public.

• As you noted, many used the letter from OGE as vindication for all purposes of the activities of the individuals involved. OGE does not believe that the Standards of Ethical Conduct issued by this Office are the only standards by which to judge the acceptability of actions of an individual employee. As noted in our letter to Secretary Bentsen, "[t]here may ~~be~~ substantial management and program reasons for reviewing an employee's performance in a particular role. That management responsibility is separate and apart from the responsibility that an agency also has to measure the employee's conduct against the standards of conduct." Since OGE and OGE personnel played no role in supervising the individuals involved, our limited role was to analyze the conduct of the individuals against the Standards of Ethical Conduct and provide that analysis to the Secretary.

• OGE specifically stated in its letter to Secretary Bentsen that "our analysis is not intended to cover, nor should it in any way reflect upon, the actions of individuals who are employed by the White House." Our role was to analyze the facts in the Inspectors General report which focused on the activities of the employees of the Department of the Treasury and, in part, those employed by the Resolution Trust Corporation (RTC). The Inspectors General did not focus upon, and had no authority to focus upon, the activities of White House officials.

• The Inspectors General of the Treasury and the RTC did their investigation and report for the Secretary of the Treasury, not for OGE. We worked with the IGs to ensure that the lines of inquiry relevant to our analysis were included. Speaking with each office almost daily during their investigation, we felt we had a very good working relationship. Secretary Bentsen, as the head of the Treasury Department and as a Member of the Oversight Board, had the authority to request the investigation from both IGs, and he did so. As we told the Secretary, we worked with the OIGs; they did not work for us. We found the staffs of both offices cooperative, hard-working and diligent in pursuing the information necessary for us to make our analysis.

Our responses to your direct questions are provided below:

Question:

1. Notwithstanding the need for independence in this investigation, the Department of the Treasury placed Francine Kerner, a subordinate of Treasury General Counsel Jean Hanson, whose conduct was the subject of the investigation, in a supervisory position over the Treasury investigation.

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- a) At what point in the process did OGE discover that the Department of the Treasury's investigation, upon which OGE would rely in formulating its report, was being supervised by an individual who was a subordinate of one of the Department's employees whose conduct was under investigation?

Answer:

While my staff cannot remember the actual date, Jane Ley, the Deputy General Counsel of OGE, believes that no later than June of 1994, she was told by the IG's office of RTC that Ms. Kerner was an employee of the General Counsel's office at Treasury and not an employee of the IG. Ms. Kerner had been in the initial meeting OGE conducted with the Treasury IG's office in March so we were aware at that time she provided legal services to the Office of Inspector General (OIG). This general arrangement was not unusual. Initially most IGs did not hire their own counsel, choosing instead to use the services of attorneys in the agencies' General Counsels' offices. More recently, however, IGs have begun hiring their own.²

Question:

- b) Was OGE made aware of this fact prior to issuing its report?

Answer:

Yes, as mentioned above, the staff became aware of it from information from the RTC OIG very early in the process. Further, based upon that information, Ms. Ley contacted Ms. Kerner and discussed that relationship specifically in the context of this IG investigation. Very shortly after that conversation, Ms. Kerner faxed to Ms. Ley a copy of a Memorandum from the Deputy Inspector General, Robert Cesca, (who was also Acting Inspector General) to the General Counsel about Ms. Kerner's services. We felt that clearly establishing who Ms. Kerner's client was for professional

²From a recent Comptroller General's report we note that in 1994, of the 27 statutory Inspectors General, five used the services of their agencies' General Counsels' offices. Those five were HHS, EPA, DOD, Treasury, and FEMA. GAO/OGC-95-15, *INSPECTORS GENERAL Independence of Legal Services Provided to IGs*, B-258857, App. III (March, 1995).

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responsibility purposes as well as from whom she would receive assignments and supervision in this matter was an important element. A copy of that memorandum is enclosed for your reference.

Question:

- c) Did OGE make any inquiry as to who was conducting the investigation and the relationship that individual had to any of the parties under investigation?

Answer:

Without inquiry, OGE was aware that Mr. Cesca was a career Deputy Inspector General who was the Acting Inspector General in the absence of a confirmed appointee. In addition, as noted above, we were informed of Ms. Kerner's status. We made no inquiries of Mr. Cesca at Treasury or of Mr. Adair, the Inspector General of RTC, about other individuals within their respective offices assigned to participate in this investigation. My staff believes that they may have met or spoken on the telephone to almost all of the senior OIG staff of each office who participated in the investigation. We believed and continue to believe that responsibility for making those assignments and for determining whether any of those individuals might have a conflict was the responsibility of each Inspector General in managing his office.

Question:

- d) Did OGE, at any time prior or subsequent to the issuance of its report, object to the role as creating an apparent "conflict of interest" which would undermine the credibility and quality of the investigation?

Answer:

We did not object to Ms. Kerner's role. However, as noted previously, for the integrity of the investigation and for Ms. Kerner's sake we did encourage that her role and supervision in this matter be clarified.

Question:

- e) What safeguards, policies or guidelines, if any, does OGE have in place, to insure that the underlying investigation upon which its views on "ethics or conflicts" issues will be based is conducted by individuals who are not in a position to be compromised by their

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relationship to the parties whose conduct is the subject of the investigation?

Answer:

As we noted in our letter to Secretary Bentsen our role in this matter was unusual. Normally we do not provide the primary analysis of an investigative report. Therefore, OGE does not have any safeguards, policies or guidelines about underlying investigations of employee misconduct. The executive branch has established professional investigative offices in the form of the Inspector General system and the Federal Bureau of Investigation (FBI). We rely upon the policies and safeguards established within those systems.

Question:

- f) What inquiries, if any, does OGE make to determine that the underlying investigation, upon which its views on "ethics or conflicts" issues will be based is conducted by individuals who are not in a position to be compromised by their relationship to the parties whose conduct is the subject of the investigation?

Answer:

This question is difficult to answer because it presumes that we often engage in analyses of the type at issue here. Since we do not, we have no standard practice of making any such inquiries. The staff of an Inspector General's office and the FBI are governed by the same standards of conduct as all executive branch employees and they must adhere to those principles in their investigations. Beyond that, unless we have some reasonable basis to believe that an investigation by an agency of potential misconduct by one of its employees was compromised, we presume that the investigation was done in good faith by individuals who are acting professionally.

On the other hand, if on the basis of reliable information we believe that an investigation of employee misconduct by an agency has not been conducted properly, that is one of the bases for us to direct that an agency undertake a further investigation. See 5 C.F.R. § 2638.503(d)(3).

Question:

- g) Did OGE make any such inquiries in this case to determine whether the underlying investigation, upon which its views on "ethics or conflicts" issues was conducted by

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individuals who were not in a position to be compromised by their relationship to the parties whose conduct was the subject of the investigation?

Answer:

Other than the discussions between Ms. Ley and Ms. Kerner noted above, we did not. Further, because the RTC and Treasury IGs' offices provided us transcripts of interviews as they became available, we were able from quite near the beginning of the investigation to read for ourselves the manner in which those conducting the interviews were pursuing the information we thought was important for our analysis. We saw nothing that would lead us to believe the investigation was compromised.

Question:

- h) If OGE did not learn prior to the issuance of its report that the Treasury Investigation was being supervised by an individual who was a subordinate of one of the Department's employees whose conduct was under investigation, what actions would have been taken to remedy the situation if it had known of the investigation?

Answer:

We did know and we did encourage that within Treasury everyone be clear on their respective roles. For purposes of the investigation being conducted by the Treasury and RTC OIGs we viewed Ms. Kerner as an employee of the Treasury IG subject to his supervision.¹

¹We found it interesting to note that the Results in Brief section of the recent Comptroller General's report included the following statement:

Finally, we found that the number and grade levels of the attorneys providing legal services and the nature and scope of services provided vary from office to office and are not necessarily related to the organizational location of the attorneys. We also found that IGs' attorneys, whether located in OGCs or OIGs, obtain services from other agency attorneys. Accordingly, our comparison of these characteristics for OGC attorneys currently providing legal services to IGs with OIG attorneys providing such services does not indicate that

(continued...)

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Question:

2. In your letter to Secretary Bentsen dated March 15, 1994, you stated that, "[w]e believe that we can effectively work with the IG so that any information we believe relevant to issues of the application of the standards of conduct to employees of the Department can be developed and included in a report from the IG." Subsequently, the Treasury Department gave fourteen documents to OGE pursuant to its "investigation."

- a) Prior to the issuance of the Report, did OGE express concern to Treasury Department officials as to whether there was sufficient documentation on which to provide guidance and interpretation?

Answer:

No. We met with the staffs of each of the Offices of Inspector General and provided them with a list of provisions of the standards of conduct that might potentially be involved; we later met and tried to focus on general areas of inquiry that would provide the information necessary in order to analyze the conduct in light of those provisions. Just as other officials rely upon professional investigative arms of Government to develop accurate reports of the facts, we relied upon the professionalism and the judgment of the individuals in the Inspector General's office. The fact that the investigators determined that so few documents shed light on the issues relevant to an analysis under the standards of conduct or the criminal conflict of interest statutes was not a basis for us to believe the investigation was not thorough. Further, we have seen nothing since that time in documents released by the Congress or by others that leads us to believe that relevant documents were not provided to us.

We believe it is important to point out that we also had available to us and did read over 1000 pages of transcripts of all sworn statements made in interviews conducted by the IGs in this investigation. Those transcripts comprised three of the four volumes of the IGs' final report made public by the Department of the Treasury.

³(...continued)

attorneys located in OGCs are less able to provide independent legal services than those located in OIGs. GAO/OGC-95-15 at p. 2.

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Question:

- b) Did OGE in fact work with the Treasury Inspector General to insure that all relevant information was developed and included in the IG's report? Did OGE make any specific requests for additional documents, facts or other information to insure that all information "relevant to issues of the application of the standards of conduct to employees of the Department" was developed and included in the IG's report?

Answer:

At the start we helped develop areas of inquiry that we felt would be necessary in order to provide us with sufficient information to make an analysis of the application of the standards of conduct to the Treasury employees' contacts with the White House. As the interviews proceeded, we had numerous telephone conversations with OIG staff, some of which undoubtedly helped frame questions in interviews of those next on the list to be interviewed. In at least two instances where we read the initial interview with an individual and knew that a second interview was planned, we specifically asked that certain follow-up inquiries be made. We could read in the transcript of the second interviews that those inquiries were made.

With regard to documents, we had a copy of a (pre-Altman) written delegation of authority from the head of the RTC to subordinates regarding the handling of certain types of cases. We asked that, if that delegation was still valid, a copy of it be attached to the IG report as an exhibit. A copy of that delegation was not attached to the final report of the IGs and we therefore deleted a direct discussion of it from our final analysis. We are unsure whether it was not attached because there was not enough time to determine if it was still a valid delegation or because it was in fact no longer valid.

Question:

- c) Did OGE have sufficient time to obtain all relevant information to issue a thorough and comprehensive report?

Answer:

We would be less than candid in saying that we thought the time we had to produce our analysis was generous. On the other hand, given the issues under the standards of conduct and given the fact that any discrepancies in the testimony of individuals was

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either not relevant to our issues or was simply one person's word against another's about a conversation. We do not believe that more time would have changed the outcome of our analysis. Again, we must stress that we were relying upon the investigation of the Inspectors General as the system established by Congress for reviewing, in part, the conduct of executive branch officials.

Question:

- d) Did the paucity of documents initially provided to OGE pursuant to the Treasury investigation create any concern for those preparing the OGE report that the investigation might not be complete or thorough? Were such concerns expressed to Treasury Investigators? If so, how were these concerns communicated to Treasury Investigators?

Answer:

While we understood that there were a substantial number of documents given to the Independent Counsel, we were not surprised that, for the most part, the type of information that would be relevant to an analysis under the standards of conduct was not in writing. For instance with regard to the misuse of confidential information, the issue was whether the individuals disclosed or used the information to further a private interest. It would have been unusual for there to have been much written documentation about the use of that information for a private purpose in Government documents even if it had occurred. During the period that the Treasury OIG was reviewing the documents, Ms. Kerner, on occasion, contacted my staff, described certain documents, and asked if my staff thought they were relevant for our analysis. If we did, that document was included. We trusted that the IG review was thorough and we have had no indication that the review of the documents was conducted in an unprofessional manner.

Question:

- e) If it is not the role of OGE to question the investigations of others, how can the appearance (or reality) of Departments or Agencies "sanitizing" their investigations be overcome?

Answer:

Congress established an Inspector General system so that agencies would have an independent source of investigation of

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matters involving the agencies' personnel and programs. We do not believe that system has any fundamental flaws and therefore we believe it is appropriate for an agency head to rely upon it for investigations of possible conflicts of interest or standards of conduct violations. OGE presumes that an investigation carried out by an Office of an Inspector General or by the FBI will be carried out in a professional manner. If we have reason to believe that an investigation into the misconduct of an employee is not being conducted professionally or correctly, we turn to the head of the agency to whom that report will be issued to correct that situation. As a member of the President's Council on Integrity and Efficiency, I could also raise the issue of IG misconduct with the Council.

The purpose of creating a professional investigative arm such as the Inspectors General system or the FBI is to provide decisionmakers with reports on which they can rely in making decisions. Those reports are of necessity a distillation of the materials and information reviewed by the investigators. If decisionmakers had to review all primary sources to first determine the quality of the investigative report before acting upon the report, the burden upon them would be significantly increased and investigators would function as little more than gatherers of source materials.

Question:

3. When Secretary Bentsen issued a press release stating that he had "instructed the matter be referred to the Office of Government Ethics for a thorough review," was OGE concerned by the implication that OGE would be conducting the investigation, especially in contrast to Secretary Bentsen's letter to Director Potts that simply requested an opinion regarding "any ethics or conflicts issues that may be raised"? If there was some concern raised, what steps were taken to address this implication?

Answer:

Yes, we were quite concerned because the press accounts immediately referred to OGE's role as an investigation. Our first information that the Secretary intended to request anything of this Office came in a telephone call from a Treasury ethics official to OGE's Deputy Director just prior to media broadcast of the Secretary's announcement. Shortly thereafter on that same evening, a member of my staff had a very blunt telephone conversation with the Treasury ethics staff about that announcement. I then sent the letter from which you quoted to the Secretary about what role we could play. We also tried to stress our advisory role with every news reporter who called our Office. And finally, in our analysis letter to the Secretary we tried to very clearly set out our role again so that anyone who actually read the analysis would

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understand it. As any person in the public eye knows, however, there is often considerable disparity between what actually occurs and how the media characterize it.

Throughout the process of developing our analysis, in any telephone calls my staff received from individuals at the Department, we continually stressed our role as analyzer and not fact finder. We also tried to make it clear to the Department and to various attorneys representing individual employees that we were not triggering the formal procedures of Part 2638 of title 5, CFR. We again emphasized these points in our analysis.

Question:

4. Was OGE given a "deadline" or otherwise informed that its report was expected by a certain date? Did the Department of the Treasury communicate to OGE that its report was needed to prepare for the Senate Whitewater hearing? How much time elapsed between the delivery of the results of the Treasury investigation and the issuance of the OGE Report?

Answer:

OGE was certainly aware that the Secretary wished to have our analysis before he testified; this desire was clear from the status inquiries we received from the Department. We also knew from the investigators that the date the Secretary expected to testify was driving the timetable for the Treasury Inspector General and thus the RTC Inspector General. In view of the public interest and the individual reputations at stake, we endeavored to meet that deadline, provided we could do so without compromising the integrity of our analysis. We felt that, regardless of the results of our analysis, the analysis would contribute to a more informed understanding of the relevant issues.

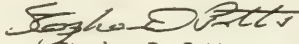
With regard to the time between the delivery of the Inspectors General report and our letter to Secretary Bentsen, we received their final report on July 29 and we delivered our final analysis to the Secretary on the 30th. We had, however, been given the transcripts of the interviews as they were completed and had seen the relevant documentary attachments prior to that time. From those materials, my Office put together a chronology and began the analysis. We also received drafts of the IGs' chronology as it was developed and we were able to cross-check those drafts against our own reading of the materials. For instance, when we thought the IG chronology might not have a correct date, we passed that information back to them with a reference to the source materials that made us think so. And, when the IGs' drafts made us believe we had an incorrect date, we went back and re-reviewed our materials. As the information on various individual contacts was complete, we also began drafting our analysis. Had we not done so,

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we could not have produced the final analysis within that one day. When we received the IGs' final report, we were nearing completion of our final draft of the analysis. We checked our dates of contacts, edited out references to the RTC delegation of authority that did not appear as an attachment to the final report, and did one final in-depth review of our written analysis to ensure that it was as clear as it could be. The analysis was then delivered to the Secretary.

I hope this information is of assistance to you. Please feel free to contact me or my staff if you have any additional questions.

Sincerely,


Stephen D. Potts
Director

Enclosures

JLey/JL(god)
SP Whitewater/Madison
~~6-6-~~
Read File
Jan Papinchak

DEPARTMENT OF THE TREASURY
WASHINGTON DC 20220

JUN 27 1994

MEMORANDUM FOR JEAN E. HANSON
GENERAL COUNSELFROM: ROBERT P. CESCA 
DEPUTY INSPECTOR GENERAL

SUBJECT: Provision of Legal Advice and Services to OIG

As you know, the Inspector General has been requested to carry out an investigation into communications between Treasury employees and White House staff concerning the collapse of Madison Guaranty Savings and Loan, and related matters. It is important that the Office of Counsel to the Inspector General, headed by Francine Kerner, continue to provide independent legal advice and services during the course of the investigation.

Given the nature of the inquiry, we have therefore agreed that Ms. Kerner and members of her staff will report solely to the Inspector General on any matters relating to the investigation. Neither Ms. Kerner nor her staff will communicate any information about the substance of this inquiry without specific authorization from the Inspector General.

In addition, a separate job element, concerning the provision of legal advice and services in connection with this specific investigation, will be added to Ms. Kerner's performance standards for rating periods July 1, 1993 through June 30, 1994, and July 1, 1994 through June 30, 1995. The determination on relative job significance and job element performance for this job element will be at the sole discretion of the Inspector General. Moreover, we have agreed that the overall rating of Ms. Kerner's performance in each of these rating periods will need to receive the concurrence of the Inspector General.

By taking these steps, the agency will help allay any misperception that legal advice and services are being affected by people whose activities may be subject to review. Should you have any questions concerning this arrangement, please feel free to call me directly.

cc: Dennis I. Foreman
Francine J. Kerner

GENERAL

Independence of Legal Services Provided to IGs





United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-258857

March 1, 1995

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our review of the independence of legal services provided to Inspectors General (IGs) appointed by the President under the Inspector General Act of 1978, as amended. The IG Act requires IGs to audit and investigate their agencies' programs and operations and authorizes them to select, appoint, and employ such officers and employees, including attorneys, as are necessary to carry out these duties. Most presidentially appointed IGs initially obtained legal services to support their work from their agencies' Offices of General Counsel (OGCs), and five IGs continue to do so.

These arrangements have raised questions about whether attorneys located in an agency's OGC can provide the independent legal services necessary for an official who is statutorily required to independently review that agency's programs and operations. As a result, the Congress required us to review the independence of legal services provided to presidentially appointed IGs in section 6007 of Public Law 103-355, the Federal Acquisition Streamlining Act of 1994. Specifically, our review compared the independence of legal services provided to IGs by attorneys located in agencies' OGCs with those provided by attorneys located in Offices of Inspector General (OIGs).

Results in Brief

The IG Act of 1978, as amended, established OIGs in departments and agencies to consolidate the audit and investigative functions of those departments and agencies in an independent office under the leadership of a senior official, the IG. The IG Act contains a number of provisions designed to ensure that IGs carry out their responsibilities independently. For example, under the act, IGs are not to report to those directly responsible for carrying out the programs and activities subject to audit and investigation, but rather to the agency head or, in the case of presidentially appointed IGs, the official next in rank. In addition, with few exceptions, neither the agency heads nor subordinates are to prevent or prohibit IGs from initiating, carrying out, or completing any audit or investigation. Thus, IGs are to be insulated from the interference of senior officials, such as General Counsels.

Some IGs and attorneys in the IG community believe that IGs whose attorneys are organizationally located in OGCs face the potential of receiving legal advice based on the positions of General Counsels or senior OGC officials and compromising their own independence on audits and investigations with significant legal content or implications. Twenty-two of the 27 IGs we surveyed have eliminated the issue of the independence of the legal advice they receive and, by extension, their own independence by placing attorneys in their own offices. In addition, the IGs have done so with increasing frequency over the last 5 years. Some IGs changed the location of their attorneys because they were not able to resolve to their satisfaction specific problems with their arrangements with OGCs. Others did so because of a policy or personal preference for having their primary source of legal services located in the OIG rather than in their agencies' OGC.

Five of the 27 IGs in our survey obtain legal services from attorneys located in their agencies' OGC. Three of the five—those at the Environmental Protection Agency (EPA) and the Departments of Defense (DOD) and Health and Human Services (HHS)—have implemented memoranda of understanding (MOUs) with their agencies' General Counsels and are satisfied with their current arrangements. To alleviate the potential that their attorneys' organizational location will adversely affect the independence of the advice the IGs receive and erode their independence, the MOUs recognize the IGs' independence and their attorneys' responsibilities and include requirements such as IGs' concurring in the selection and appraisal of their principal legal advisors. The IGs at the Federal Emergency Management Agency (FEMA) and the Department of the Treasury do not receive legal services from OGC attorneys under the conditions that exist at the other three agencies. The FEMA IG is concerned about some aspects of the arrangement under which legal services are provided and plans to review the matter. The Treasury IG is not satisfied with her current arrangement and is discussing the matter with Treasury officials.

Finally, we found that the number and grade levels of the attorneys providing legal services and the nature and scope of services provided vary from office to office and are not necessarily related to the organizational location of the attorneys. We also found that IGs' attorneys, whether located in OGCs or OIGs, obtain services from other agency attorneys. Accordingly, our comparison of these characteristics for OGC attorneys currently providing legal services to IGs with OIG attorneys providing such services does not indicate that attorneys located in OGCs

are less able to provide independent legal services than those located in OIGs.

Background

Under the IG Act, OIGs are to provide agency heads and the Congress with independent assessments of the management and operation of agencies and their programs.¹ Specifically, the IGS' mission is to audit and investigate agency programs and operations with an eye toward (1) promoting economy, efficiency, and effectiveness and (2) detecting fraud, waste, and abuse.

The IG Act provides IGS with broad authority to hire employees with the knowledge and skills needed to make the requisite assessments. The act also grants IGS significant discretion regarding matters of OIG structure and composition. The IGS initially obtained necessary audit and investigative expertise from the internal auditors and investigators transferred to the newly established OIGs and legal services from their agencies' OGCS. Over the years, presidentially appointed IGS have increasingly placed their primary source of legal services in their own offices, and only five still have principal legal advisors organizationally located in their agencies' OGCS.

During consideration of the bill that became the Federal Acquisition Streamlining Act of 1994, the Senate considered amending the IG Act to require presidentially appointed IGS to place their attorneys in their own offices. Proponents raised concerns about the independence of legal advice provided to IGS by OGC attorneys and argued that reliance on such attorneys compromises IGS' independence. Others argued that IGS are best able to determine how to obtain legal services and, thus, opposed requiring IGS to place attorneys in their offices. A compromise measure, which ultimately became section 6007 of the Federal Acquisition Streamlining Act of 1994, requires us to review the independence of legal services provided to IGS appointed by the President under the IG Act.

Objectives, Scope, and Methodology

Consistent with section 6007 of the Federal Acquisition Streamlining Act of 1994, the objectives of our work were to (1) review the independence of legal services being provided by OGC attorneys to IGS appointed by the President under the IG Act and (2) compare the independence of these legal services to those provided in agencies where the IG's principal source

¹The Congress had established an OIG at the Department of Health, Education, and Welfare in 1976 following disclosures of inadequacies in its internal audit and investigative procedures. The Congress also established an OIG in the Department of Energy when it was created in 1977.

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of legal advice is located in the OIG. Appendix I identifies the 27 OIGs included in our review.²

We interviewed the five IGS whose principal legal advisors are located in their agencies' OGCs—those at DOD, EPA, FEMA, HHS, and Treasury—and seven of the IGS whose principal legal advisors are located in OIGs—those at the United States Information Agency (USIA) and the Departments of Education, Housing and Urban Development (HUD), Interior, Labor, Transportation, and Veterans Affairs.³ Our interviews focused on the role of the IGS' attorneys and their working relationships with the agencies' OGCs, the extent of the IGS' control over the activities of their attorneys, and the framework in which legal services are provided.

In addition, to determine whether there are differences between the OGC and OIG attorneys currently providing legal services to IGS that might suggest that those located in OGCs are less able than those located in OIGs to provide independent legal services, we used a questionnaire to gather information from all 27 IGS on how IGS obtain legal services as well as on the composition, supervision, and budgetary independence of the legal staffs providing services to IGS; interviewed selected OIG staff and IGS' principal legal advisors; and compared the mechanisms through which OGC and OIG attorneys provide legal services. Finally, we obtained information on the volume and nature of legal services provided to the IGS over the last 2 fiscal years and on the frequency and resolution of disagreements between the IGS' attorneys and other agency attorneys during this period. We did not attempt to evaluate the quality of the legal services provided by either OGC or OIG attorneys and therefore did not review legal products prepared for IGS by either OGC or OIG attorneys.

Our work was performed in accordance with generally accepted government auditing standards from November 1994 through January 1995.

We discussed our findings and recommendations with the IGS at Treasury and FEMA and have incorporated their comments where appropriate.

²This review did not include IGS appointed by agency heads under the IG Act or the IG at the Central Intelligence Agency (CIA), who is appointed by the President under the CIA's authorizing legislation.

³At the time of our review, the IG positions at the Departments of Defense and Interior were vacant and the IG at the Department of Transportation was on extended leave. At those departments, we interviewed the Deputy IGs.

Organizational Location of OGC Attorneys Gives Rise to Independence Concerns

The General Counsel serves as an agency's chief legal official and, as such, advises the agency head and articulates the agency's positions on legal matters. The IG serves as an independent evaluator of the agency's programs and operations and reports on the evaluations to the agency head and the Congress. Occasionally, attorneys advising the agency head and those advising the IG may view legal issues differently. As a result, the IG's attorneys may be placed in the position of offering legal advice or preparing opinions that differ from those of senior OGC officials, including the General Counsel. When the differences cannot be resolved by the staffs, or by the General Counsel and IG themselves, the IG may elevate them to the agency head during the audit resolution process and require further legal assistance.

Most of the officials we interviewed acknowledged the potential for IGs whose attorneys are located in agencies' OGCs to receive legal advice based on the views of General Counsels or senior OGC officials and to compromise their own independence on audits and investigations for which legal services are significant.⁴ These officials believe that actions taken by senior OGC officials or the attorneys' own concerns about such matters as professional relationships or career advancement could make it difficult for OGC attorneys to provide independent legal advice to the IG. Further, we were told by some attorneys now located in OIGs that when they were located in OGCs, they had felt pressure to conform their views to positions favored by senior OGC officials. At one of the agencies in our survey, we were told that OGC had once directed the IG's attorney in writing not to provide legal advice to the IG on a particular issue. At this agency, the IG's legal advisors are now located in the OIG.

Most IGs have eliminated concerns associated with their attorney's organizational location by placing their attorneys in the OIGs. Three of the five IGs with OGC attorneys have implemented MOUs with their agencies' General Counsels to alleviate the concerns associated with their attorneys' organizational location. The remaining two IGs do not receive legal services from OGC attorneys under the conditions existing at the other three agencies and are not satisfied with their arrangements.

⁴Federal attorneys are subject to rules of professional responsibility adopted by the states in which they are admitted to practice. Some attorneys we interviewed specifically referred to such rules in explaining that, wherever located, they would base their advice to the IG on their independent professional judgment rather than on the position favored by the organizational unit in which they were located.

IGs Have Increasingly Used Authority Under the IG Act to Place Their Attorneys in OIGs

The IG Act specifically authorizes IGS to select, appoint, and employ such officers and employees as may be necessary for carrying out their functions, powers, and duties. According to the legislative history, the act provides such explicit authority because of the possibility that agencies might deny IGS the authority to hire needed staff in order to hamper their operations. The legislative history also clearly indicates that this broad hiring authority applies to attorneys. Accordingly, IGS may obtain legal services from OGC attorneys or from attorneys located in their own offices at their discretion.

Our survey reveals a steady trend over the past decade toward IGS obtaining legal services from attorneys located in their own offices. As illustrated in appendix II, 33 percent of established OIGs obtained legal services from attorneys located within the OIG in 1985, 58 percent in 1990, and 81 percent—or 22 of 27—in 1994.

As illustrated in appendix III, the trend results from existing IGS changing the location of their attorneys as well as from new IGS placing their attorneys in their own offices. Of the nine IGS whose attorneys were located in OGCs in 1980, six have changed the location of their attorneys since 1990. In addition, of the five IGS whose offices were established between 1990 and 1994, all but FEMA placed attorneys in their offices within their first year of operation.

We interviewed the IGS at Education, HUD, Interior, Labor, Transportation, USA, and Veterans Affairs. At four of these seven agencies—Education, Labor, Transportation, and USA—the IGS changed the organizational location of their primary source of legal services from OGC to the OIG because of specific unsatisfactory experiences with their OGC arrangements. The IGS were not confident that OGC attorneys could provide independent advice consistent with their needs. At Interior, the attorneys providing legal services to the IG were relocated to the OIG at the request of the Solicitor who believed for management reasons that attorneys providing legal services exclusively to the OIG should be located in that office. Finally, newly appointed IGS at HUD and Veterans Affairs placed their attorneys in the OIG in order to satisfy policy objectives or personal preferences. These IGS are satisfied with the arrangements under which they obtain legal services.

Three of the Five IGs With OGC Attorneys Have Taken Steps to Alleviate Concerns Associated With Their Attorneys' Location

Three IGs who obtain legal services from OGC attorneys—those at DOD, EPA, and HHS—have implemented MOUs to alleviate the potential that their attorneys' location will limit the independence of the advice they receive and affect their own independence. The three IGs are satisfied with their current arrangements. These MOUs assert the independence of the OIG and address the specific conditions from which the potential effects on independence arise. They address personnel management responsibilities including the selection and appraisal of attorneys, the protection of sensitive information, and the provision of legal advice.

With respect to personnel, the three MOUs require the General Counsel to establish a separate division within OGC so that attorneys providing legal services to the IG do not also provide legal services to other agency components. Several officials emphasized the importance of placing the IG Division physically in or near the OIG rather than in OGC.⁵ To varying degrees, they also require IG concurrence in the selection of the legal staff and prohibit the transfer, reassignment, assignment of additional duties to, or termination of such staff without IG concurrence. The three MOUs also provide for IG involvement in performance appraisals. Under the HHS MOU, the General Counsel is to seek the IG's views on the principal legal advisor's annual performance evaluation and bonus. The DOD and EPA MOUs provide that the principal legal advisor is to be evaluated by the General Counsel with the concurrence of the IG.

The IGs at DOD, EPA, and HHS and their attorneys explained how the MOUs have been implemented. Each agency's OGC has a separate division comprised of attorneys who provide legal services exclusively to the IG as reflected, to varying degrees, in the position descriptions of the IGs' principal legal advisors. The IGs at the three agencies also participate in the selection and appraisal of their attorneys, consistent with the provisions of their respective MOUs. For example, the DOD IG and General Counsel jointly selected the IG's current principal legal advisor, and the HHS IG provides the General Counsel with an annual written appraisal of the principal legal advisor's performance.⁶

With respect to sensitive information, the MOUs in effect at the three agencies authorize the IGs to limit their communication about particular

⁵The OGC attorneys providing legal services to the IGs at DOD and HHS are located with the OIG rather than with OGC. Due to space constraints, the EPA attorneys who provide legal services to the IG are located neither with the OIG nor with most of their OGC colleagues.

⁶The OIGs' principal legal advisors are generally responsible for appraising the performance of their staff attorneys and have done so without any interference by senior officials in OGC.

matters to their OGC attorneys where broader communication would undermine or impair their function. The OGC attorneys providing legal services to the IG are not to communicate any information received from the OIG about such matters without specific authorization from the IG.

Finally, the MOUs in effect at DOD, EPA, and HHS contain provisions addressing the relationship between the IGs and their attorneys and the General Counsels and their staffs. The three MOUs provide for the IGs' attorneys to seek the expertise of other attorneys who may be knowledgeable about particular agency programs and activities. The MOUs also contemplate that the IGs may disagree with opinions of the General Counsels and that, if requested, the IGs' attorneys will provide assistance to the IGs under such circumstances. While the MOUs specify procedures for the resolution of certain differences between the IGs' attorneys and other attorneys, they do not bind either the IGs or their attorneys to OGC's views.

For example, the MOU in effect at HHS provides that the IG is free to disregard the General Counsel's advice and that legal opinions provided by the IG's attorneys that conflict with the legal positions of the Department are to state that they are solely the positions of the IG Division. The DOD MOU states that if the IG disagrees with the General Counsel's legal opinion and requires assistance from the IG's attorney, the attorney may provide whatever legal assistance the IG requires to carry out IG responsibilities.⁷ Echoing the MOU, the position description for the DOD IG's principal legal advisor states that the attorney is to provide legal advice through the IG to the most senior DOD officials on any aspect of the IG's authority or activities and on DOD's programs and operations. While high-level disagreements are infrequent, the OGC attorneys for the three IGs explained that they have disagreed with their OGC colleagues and advised the IGs accordingly.

Like the IGs whose principal legal advisors are in their own offices, the IGs at DOD, EPA, and HHS are satisfied with their current arrangements. They believe that these arrangements facilitate necessary communication with OGC as well as the resolution of audit findings and do not believe that the advice they receive is affected by their advisors' organizational location. They also emphasized that they would exercise their authority under the IG Act to place their attorneys within the OIG if the independence of the legal services they receive became suspect or if they otherwise became dissatisfied.

⁷The HHS and EPA MOUs contain nearly identical provisions.

Two IGs Are Concerned About OGC Arrangements

The IGs at FEMA and Treasury do not obtain legal services from OGC attorneys under the conditions that exist at DOD, EPA, and HHS. In 1984, the then nonstatutory IG and General Counsel of FEMA signed an MOU similar to those currently in effect at DOD, EPA, and HHS. However, this MOU was not implemented. The position description for the IG's current principal legal advisor, a GS-14 attorney, includes providing assistance to the IG as only one of a myriad of duties to be performed in support of FEMA's activities. Moreover, the attorney's performance plan characterizes the duties in support of the IG—serving as OGC's liaison and central clearing point for OIG matters—as "noncritical." Consistent with the position description, the attorney provides limited services to the IG. Accordingly, OIG staff regularly obtain legal services from program attorneys. The current IG told us that he is dissatisfied with this arrangement. He told us that he would consider hiring an OIG attorney, particularly to provide experienced legal support to OIG investigators, if a GS-15 level position were vacant. In addition, he plans to discuss with the General Counsel an MOU that would ensure that dedicated attorneys are available to meet his needs and that appropriate safeguards to independence are in place.

While the OGC attorneys from whom the Treasury IG obtains legal services are dedicated exclusively to the IG and are physically located near the OIG, there is no MOU in effect to address concerns associated with the attorneys' organizational location. Further, the position description for the IG's principal legal advisor, which predates the establishment of a statutory IG at Treasury, contains language suggesting that the independence of the legal services provided to the IG could be limited. The IG believes that her selection and appraisal of a principal legal advisor are essential elements of a satisfactory arrangement. She is dissatisfied with the current arrangement. The Treasury IG told us that she and the General Counsel have agreed on the outlines of an MOU and will continue to discuss the matter.

Government Auditing Standards Allow Different Approaches for Obtaining Legal Services

The professional standards applicable to IGs do not require them to select one method of obtaining legal services over another and do not preclude different arrangements that reflect IGs' preferences. Government Auditing Standards⁹ require auditors and audit organizations to be independent and to maintain an independent attitude and appearance so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as such by third parties. To this end, they also require auditors

⁹The IG Act requires IGs to comply with Government Auditing Standards in carrying out their duties and responsibilities.

to evaluate whether evidence is sufficient, competent, and relevant to afford a reasonable basis for findings and conclusions. An auditor's approach to determining the sufficiency, competence, and relevance of evidence depends on the source of that evidence. In considering whether to rely on an attorney's work, an auditor considers the attorney's qualifications and independence, both personal and organizational.

Twenty-five of the 27 IGS in our survey currently obtain legal services in the manner they prefer. Having their primary source of legal services in the OIG helps to provide 22 IGS with confidence that their reliance on the legal advice they receive will not compromise their independence. The requirements and conditions contained in the MOUs at DOD, EPA, and HHS help to provide those IGS with similar confidence. In the final analysis, the IGS, under governing standards, must determine whether to rely on the legal advice they receive.

Composition and Duties of Legal Staffs Vary From Office to Office

During our review, we gathered information on the composition and duties of the legal staffs currently providing services to IGS to determine whether those located in OGCs differ as a group from those located in OIGs. As shown in appendix IV, the size of legal staffs supporting IGS, both in isolation and in comparison to total OIG staff, bears no relation to the location of the attorneys. The size of legal staffs varies from 1 to 19 attorneys. The median number of attorneys providing services to IGS is three. The ratio of attorneys to total OIG staff also varies widely, with no widespread correlation between the ratio and the location of the IGS's attorneys. Likewise, we found that there is no distinguishable difference between the grade levels of principal legal advisors located in OGCs and those in the OIGs. In the five agencies at which OGC attorneys provide legal services to the OIG, three (60 percent) of the principal legal advisors are in the Senior Executive Service, one is a GS-15, and one is a GS-14. In the 22 agencies where OIG attorneys provide such services, 15 of the principal legal advisors (68 percent) are in the Senior Executive Service and 7 are GS-15s. The grade levels of the OGC and OIG staff attorneys are also mixed. Appendix V contains data on the grades of the legal staffs providing services to IGS.

We also found that the nature and scope of the legal services provided to the IGS vary from office to office and are not necessarily related to the location of the attorneys. We found that IGS routinely ask their attorneys to interpret federal laws and regulations and to advise OIG staff on issues arising during audits and investigations. In agencies with programs that

are particularly susceptible to fraud, the IGS are more likely to also ask their attorneys to prepare subpoenas, assist Assistant United States Attorneys with criminal litigation, and help negotiate settlements. Regardless of attorney location, IGS and their attorneys recognize that they may benefit from the assistance of other agency attorneys with expertise in particular programs. In fact, some IGS with OIG attorneys have formal agreements with their agencies' General Counsels that provide for such assistance. While IGS' attorneys and other agency attorneys generally enjoy cooperative relationships, differences of opinion occasionally arise. However, IGS reported few differences between IGS' attorneys, wherever located, and senior agency attorneys during the past 2 fiscal years. Differences between attorneys were usually resolved at the staff level. Further, several IGS told us that compliance issues often arose during the audit resolution process not as differences between lawyers but as disputes between the IGS and program officials over particular facts or the application of such facts to governing law.

The way in which IGS use attorneys, wherever located, appears largely to reflect the personalities and preferences of the individual IGS. For example, several IGS use their principal legal advisors as counselors on policy and management issues. Although most of the IGS who emphasized this role during our interviews obtain legal services from OIG attorneys, some IGS' OGC attorneys also serve in this role to some degree. Further, two IGS explained circumstances in which OIG staff who were attorneys, but not part of the legal staff, provided some legal services. Another IG whose principal legal advisor is in the OIG even suggested that as long as an IG has someone in the OIG qualified to provide legal advice and counsel, particularly on sensitive matters, the organizational location of the attorneys who provide routine legal services to OIG staff is itself of little consequence.

Conclusions

There is concern that IGS whose attorneys are organizationally located in agencies' OGCs will not always receive independent legal advice and that their own independence will be compromised as a result. Twenty-two of the 27 IGS in our survey have eliminated the issues associated with their attorneys' organizational location by placing attorneys in their own offices under the authority of the IG Act. Three of the five IGS who obtain legal services from OGC attorneys have implemented MOUs, which include requirements for IG concurrence in the selection and appraisal of their principal legal advisors, to alleviate the potential that their attorneys' location will adversely affect the independence of the advice the IGS

receive and erode their independence. The IGS at FEMA and Treasury do not obtain legal services from OGC attorneys under the conditions that exist at DOD, EPA, and HHS.

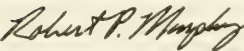
In addition, we found no evidence from which to conclude that the composition and duties of the legal staffs providing services to the 27 IGS are significantly different based on their organizational location. We also found that the composition and duties of the IGS' legal staffs largely reflect the preferences of individual IGS. Accordingly, our comparison of the composition and duties of OGC attorneys advising IGS and OIG attorneys does not indicate that attorneys located in OGCs are less able than those located in OIGs to provide independent legal services to IGS.

Recommendations

To help ensure that the IGS at FEMA and Treasury receive independent legal services, we recommend that they either locate their principal legal advisors within their offices or implement MOUs with their agencies' General Counsels containing, at a minimum, the requirements and conditions, including participation in the selection and appraisal of the principal legal advisor, in the MOUs in effect at DOD, EPA, and HHS.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight. Copies are also being provided to Senator Charles Grassley, the Director of the Office of Management and Budget, the Inspectors General of the agencies included in our review, and other interested parties.

This report was prepared under the direction of Jeffrey A. Jacobson, Assistant General Counsel, who may be reached on (202)512-8261. Major contributors to this report are listed in appendix VI.

for 
Charles A. Bowsher
Comptroller General
of the United States

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Appendix VI

Major Contributors to This Report

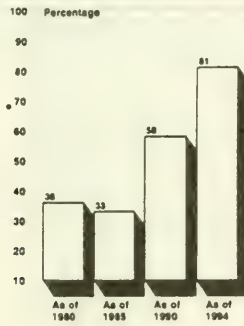
Abbreviations

AID	Agency for International Development
CIA	Central Intelligence Agency
CNCS	Corporation for National and Community Service
DOD	Department of Defense
EPA	Environmental Protection Agency
FEMA	Federal Emergency Management Agency
FDIC	Federal Deposit Insurance Corporation
FTE	full-time equivalent
GAO	General Accounting Office
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IG	Inspector General
MOU	memorandum of understanding
NASA	National Aeronautics and Space Administration
NRC	Nuclear Regulatory Commission
OGC	Office of General Counsel
OIG	Office of Inspector General
OPM	Office of Personnel Management
RTC	Resolution Trust Corporation
SBA	Small Business Administration
SES	senior executive service
USIA	United States Information Agency

OIGs Included in GAO's Review

Agency for International Development
Corporation for National and Community Service
Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Department of Veterans Affairs
Environmental Protection Agency
Federal Deposit Insurance Corporation
Federal Emergency Management Agency
General Services Administration
National Space and Aeronautics Administration
Nuclear Regulatory Commission
Office of Personnel Management
Railroad Retirement Board
Resolution Trust Corporation
Small Business Administration
United States Information Agency

Percentage of IGs With OIG Attorneys



Appendix III

Calendar Years in Which IGs Were First Appointed and OIGs First Employed Attorneys

Agency	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
HHS		○								○	○	○	○	○	○			
Energy		○	○	○	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Agriculture					●	●	●	●	●	●	●	●	●	●	●	●	●	●
Commerce				●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
EPA			●	●	●	○	○	○	○	○	○	○	○	○	○	○	○	○
GSA			●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
HUD			○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Interior			○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Labor									○	○	○	○	○	○	○	○	○	○
NIASA			○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
SBA			●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Transportation			○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Veterans Affairs									○	○	○	○	○	○	○	○	○	○
Education				○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
AID									○	○	○	○	○	○	○	○	○	○
State					○	○	○	○	○	○	○	○	○	○	○	○	○	○
DOD									○	○	○	○	○	○	○	○	○	○
Railroad Retirement Board									○	○	○	○	○	○	○	○	○	○
USIA											○	○	○	○	○	○	○	○
FDIC												○	○	○	○	○	○	○
NRC													○	○	○	○	○	○
Treasury													○	○	○	○	○	○
FEMA													○	○	○	○	○	○
Justice													○	○	○	○	○	○
OPM													○	○	○	○	○	○
RTC													○	○	○	○	○	○
CNCS																		○

Legend

- = Years OGC attorneys provided legal services to the IG
 ● = Years OIG attorneys provided legal services to the IG

Note: The Foreign Service Act of 1980 established an Inspector General of the Department of State and the Foreign Service. The Foreign Relations Authorization Act for Fiscal Years 1986 and 1987 amended the IG Act to bring the Department under the act. One year later, the position of Inspector General of the Department of State and the Foreign Service was abolished.

Comparison of Attorney and Total OIG Staff as of September 30, 1994

Agency	Attorney location	Number of attorneys	Total OIG staff ^a
Agency for International Development	OIG	3	245
Corporation for National and Community Service	OIG	1	11
Department of Agriculture	OIG	2	821
Department of Commerce	OIG	7	189
Department of Defense	OGC	7	1569
Department of Education	OIG	3	344
Department of Energy	OIG	2	358
Department of Health and Human Services	OGC	19 ^b	1252
Department of Housing and Urban Development	OIG	2	484
Department of the Interior	OIG	2	303
Department of Justice	OIG	3	331
Department of Labor	OIG	5 ^c	475
Department of State	OIG	5	261
Department of Transportation	OIG	1 ^d	461
Department of the Treasury	OGC	4 ^e	292
Department of Veterans Affairs	OIG	3	397
Environmental Protection Agency	OGC	4	435
Federal Deposit Insurance Corporation	OIG	3	190
Federal Emergency Management Agency	OGC	1	53
General Services Administration	OIG	7	587
National Aeronautics and Space Administration	OIG	2	192
Nuclear Regulatory Commission	OIG	2	46
Office of Personnel Management	OIG	2	113
Railroad Retirement Board	OIG	1	92
Resolution Trust Corporation	OIG	5	285
Small Business Administration	OIG	2 ^c	96
United States Information Agency	OIG	1	53

(Table notes on next page)

Grade Levels of Attorneys Providing Legal Services to IGs as of September 30, 1994

Agency	Attorney location	Attorney Grades		
		SES	GS-15a	GS-14 and below
Agency for International Development	OIG	1	1	1
Corporation for National and Community Service	OIG		1	
Department of Agriculture	OIG		1	
Department of Commerce	OIG	1	1	5
Department of Defense	OGC	1	6	
Department of Education	OIG		1	2
Department of Energy	OIG	1		
Department of Health and Human Services	OGC*	2	5	12
Department of Housing and Urban Development	OIG	1	1	
Department of Interior	OIG	1	1	
Department of Justice	OIG	1	1	1
Department of Labor	OIG	1 ^c	2	2
Department of State	OIG	1	2	2
Department of Transportation ^d	OIG	1		
Department of the Treasury	OGC		2	2 ^e
Department of Veterans Affairs	OIG	1	1	1
Environmental Protection Agency	OGC	1	1	2
Federal Deposit Insurance Corporation	OIG	1	1	1
Federal Emergency Management Agency	OGC			1
General Services Administration	OIG	1	2	4
National Aeronautics and Space Administration	OIG		1	1
Nuclear Regulatory Commission	OIG	1 ^f		1
Office of Personnel Management	OIG		1	1
Railroad Retirement Board	OIG		1	
Resolution Trust Corporation	OIG	1	1	3
Small Business Administration	OIG	1 ^c		1
United States Information Agency	OIG		1	
Totals		19	35	45

(Table notes on next page)

Appendix V
Grade Levels of Attorneys Providing Legal
Services to IGs as of September 30, 1994

*One additional GS-15 and three additional GS-14 attorneys are employed in OIG's Office of Civil Fraud and Administrative Adjudication

*Three attorneys are part time and one was on extended maternity leave

*In addition to providing legal services to the IGs at the Department of Labor and the Small Business Administration, these SES-level attorneys have OIG management responsibilities

*The IG at the Department of Transportation hired an attorney on October 17, 1994

*Both of these attorneys are part time

*This position is equivalent to an SES position and is classified as a "Senior Level System" position within the Nuclear Regulatory Commission

000111

Talking points for Roger Altman: informational meeting with
Mack McLarty 2/2/94

o RTC has been requested by eight Republican Senators and Congressmen, including Dole and Michel, to seek tolling agreements from President and Mrs. Clinton, the McDougals, David Hale, Jim Guy Tucker, Seth Ward and the Rose law firm, relating to Madison Guaranty.

o Under the RTC Completion Act, the statute of limitations has been extended to five years. The extension is retroactive for claims involving fraud or intentional misconduct resulting in unjust enrichment or substantial loss to the institution.

o The retroactive five-year extension relating to Madison Guaranty will expire on February 28, 1994.

o The only claims that could still exist as a result of the five year retroactive extension are those relating to fraud or intentional misconduct. All other claims, including any based on negligence or gross negligence, have lapsed.

o If any claim relating to fraud or intentional misconduct does exist, the RTC has three choices: (1) allow the claim to lapse on 2/28/94; (2) commence litigation to preserve it; or (3) enter into a tolling agreement with the relevant party to extend the statute of limitations, giving the RTC additional time to investigate and determine whether to commence litigation.

o The RTC can enter into a tolling agreement only if the other party agrees.

o There must be a basis to bring a lawsuit; frivolous claims will be dismissed and can subject the attorneys bringing the suit to sanctions by the court.

o The RTC is currently reviewing the Madison Guaranty situation to determine if any claims exist under the Completion Act. (See 2/1/94 letter to Dole.)

o If it is decided that any claim does exist, the RTC will have to determine which of the three alternatives to choose.

o The work is being supervised by Ellen Kulka, the new General Counsel, and by Jack Ryan, the new interim Deputy C.E.O.

o It is not certain when the analysis will be completed, but it will be before February 28.

o I have decided that I will recuse myself from the decision making process, as interim C.E.O. of the RTC, because of my relationship with the President and Mrs. Clinton.

002227

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Los Angeles Times

July 30, 1994, Saturday, Home Edition

SECTION: Part A; Page 20; Column 1; National Desk

LENGTH: 1315 words

HEADLINE: ALTMAN LIED ABOUT PROBE CONTACTS, GOP SENATORS SAY;
WHITewater: ATTACKS CONFIRM THEY WILL FOCUS BULK OF FIRE AT HEARINGS AT TREASURY
AIDE. THEY ALLEGE THAT HE GAVE WHITE HOUSE CONFIDENTIAL INFORMATION.

BYLINE: By MICHAEL ROSS and SARA FRITZ, TIMES STAFF WRITERS

DATELINE: WASHINGTON

BODY:

Deputy Treasury Secretary Roger Altman "deliberately lied" to Congress about the nature and extent of information he gave to the White House on the federal investigation of a failed Arkansas savings and loan with ties to President Clinton, several Republican senators charged Friday.

As the Senate Banking, Housing and Urban Affairs Committee opened its hearings into the Whitewater controversy, GOP lawmakers quickly confirmed that they intend to direct most of their fire at Altman because of questions that have arisen about his role in a series of controversial contacts between White House officials and federal regulators looking into the failure of Madison Guaranty Savings & Loan.

From critical comments -- even by several Democrats on the panel -- it also became clear that the Administration is in for a much rougher time during the Senate hearings than it has experienced so far in the House, where parallel hearings took place this week.

Altman, a close personal friend of Clinton since their college days, "has become the eye of the storm," said Sen. Connie Mack (R-Fla.).

Although the White House has vowed to stand behind Altman, speculation was growing among lawmakers that his career may not be able to withstand many more questions about his involvement in Whitewater-related matters.

The latest allegation -- that he provided confidential information about the status of the investigation to the White House at a crucial time during an inquiry by the Resolution Trust Corp. -- could be particularly damaging, they added.

Altman was swept into the center of the controversy earlier this month when discrepancies emerged between his earlier testimony before the Senate panel and sworn statements since given to investigators by one of his senior aides, Treasury Department Counsel Jean Hanson.

Contradicting Altman's earlier assertions that he did not learn of the contacts until March of this year, Hanson said that Altman had instructed her the previous September to keep White House officials informed about the RTC

Los Angeles Times, July 30, 1994

inquiry into allegations that Madison Guaranty funds had been illegally diverted both to Clinton's 1985 Arkansas gubernatorial campaign and to the Whitewater Development Corp., an Ozarks real estate project.

Clinton and his wife, Hillary Rodham Clinton, were partners with Madison Guaranty owner James B. McDougal in the 1970s resort development.

More than 20 meetings and phone conversations took place between Hanson and other regulators and White House officials during a six-month period ending in February. The congressional panels are interested in the meetings because of suggestions that the White House might have sought to interfere with the RTC investigation or to obtain confidential information about it.

In testimony before the House Banking, Finance and Urban Affairs Committee this week, White House Counsel Lloyd N. Cutler and the 10 former and current White House aides who participated in the contacts all denied that Administration officials had sought to impede the investigation and said that the only information they received from the regulators could have been obtained from news reports.

Cutler said that the contacts violated no ethics rules because their only purpose was to help the White House prepare for queries from reporters as the Whitewater story was unfolding.

But as the Senate hearings began, Sen. Alfonse M. D'Amato (R-N.Y.) said that the committee had taken a deposition from a senior White House aide who testified that Altman had provided him and other officials at a Feb. 2 meeting with a key piece of confidential information that had not appeared in news accounts.

Citing a deposition by White House Deputy Chief of Staff Harold M. Ickes as his source, D'Amato said that Altman had told a White House meeting that the RTC would not be able to complete its Madison Guaranty inquiry before the expiration of a deadline for filing civil claims at the end of February.

Had Congress not later extended the deadline to the end of 1995, White House knowledge that the RTC was not prepared to file suit could have undermined the case by removing any incentive for the Clintons to cooperate with federal investigators until after the statute of limitations for civil complaints had expired, D'Amato contended.

"This evidence makes it clear that Mr. Altman deliberately lied to Congress regarding the Feb. 2 White House meeting," he charged.

Reacting to D'Amato's charges, Altman issued a brief statement denying that he had given Ickes or any other officials at the meeting any information about the status of the RTC investigation.

"Sen. D'Amato's statement today is simply incorrect. I did not have any such information. No information of any kind was provided on the status of the investigation," Altman said.

A senior Treasury Department official added that, while he had not seen Ickes' deposition, the "most accurate" account of what transpired at the Feb. 2 meeting was the one that Cutler gave to the House committee on Tuesday. In

Los Angeles Times, July 30, 1994

that account, Cutler reaffirmed what Altman said about the meeting when he first testified before the Senate committee on Feb. 24.

The meeting, Cutler said, was requested by Altman solely to give White House officials "the same information related to the statute of limitations issue that the RTC had been providing to the Congress and the press." It was purely a procedural briefing that did not discuss either the status or "the substance or merits of the Madison (Guaranty) matter," he added.

Other officials also noted that at that time the Administration also supported the extension of the statute of limitations, which affected not only the Madison Guaranty case but hundreds of other civil cases that the government was pursuing against failed S&Ls.

But other GOP senators joined D'Amato in insisting that the Ickes deposition -- which has not been made public but from which they cited excerpts -- proves that Altman misled them when he testified in late February.

Ickes, they said, quoting from the deposition, asked Altman about "the progress of the inquiry being conducted by the RTC." Altman answered, according to the excerpts, that it was "going to take a longer period of time to conclude" and that it was "unlikely that the investigation could be completed and a recommendation made by the general counsel prior to the expiration of the statute of limitations."

Altman, who is scheduled to testify at the Senate hearings Tuesday, will "have a lot of explaining to do," conceded a Democratic committee aide.

Several Democratic senators, while saying that Altman should be given a chance to explain himself before he is publicly accused, admitted to serious doubts about some of the contacts in which Altman was involved.

"Although it appears no criminal violations have occurred, I am deeply troubled by the conduct of some of the Administration aides," said Sen. Richard H. Bryan (D-Nev.), a member of the Senate banking panel who also chairs the Senate Ethics Committee.

While D'Amato's charges highlighted the opening of the Senate hearings, the lawmakers spent most of the day reviewing the investigation of Whitewater special counsel Robert B. Fiske Jr. into the death of White House Deputy Counsel Vincent Foster last June.

Because he was working on Whitewater-related matters at the time, Foster's death precipitated controversy -- as well as a host of conspiracy theories. But both Republicans and Democrats on the committee declared their support for Fiske's conclusion that Foster committed suicide as a result of depression unrelated to the Whitewater controversy.

Under questioning from the committee, federal investigators from both the FBI and the U.S. Park Police said they had found no evidence that the death of Foster, who was found in a public park with a gun still in his hand, was anything but a suicide.

LANGUAGE: ENGLISH

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

Bond Underwriters, Bond Counsel & Special Tax Counsel

SINGLE FAMILY MORTGAGE REVENUE BONDS:

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1978A	15,000,000	E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Rose, Nash, Williamson, Carroll, Clay & Giroir
1979A (FHA/VA)	75,000,000	E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Rose, Nash, Williamson, Carroll, Clay & Giroir
1979A (Conventional)	100,000,000	E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated Merrill Lynch White Weld Capital Markers Group	BC: Rose, Nash, Williamson, Carroll, Clay & Giroir
1980A (FHA/VA)	110,000,000	E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Rose Law Firm
1982A (FHA/VA)	100,000,000	E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Friday, Eldredge & Clark
1983A	26,365,000	Blyth Eastman Paine Webber George K. Baum & Company Collins, Locke & Lasater T.J. Raney & Sons, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield
1983B	50,000,000	Blyth Eastman Paine Webber George K. Baum & Company Collins, Locke & Lasater T.J. Raney & Sons, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield
1983C	83,500,000	Blyth Eastman Paine Webber The First Boston Corporation Prudential Bache Securities George K. Baum & Company Lasater & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield

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1983D	40,135,000	Blyth Eastman Paine Webber The First Boston Corporation Prudential Bache Securities George K. Baum & Company Lasater & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield
1984A	104,000,000	PaineWebber Incorporated Chase Manhattan Capital Markets Lazard Freres & Company George K. Baum & Company Lasater & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield
1985A	175,000,000	PaineWebber Incorporated Citicorp Investment Bank Merrill Lynch Capital Markets George K. Baum & Company Lasater & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield
1985	25,000,000	PaineWebber Incorporated Citicorp Investment Bank Merrill Lynch Capital Markets George K. Baum & Company Lasater & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield
1984A1	23,500,000	PaineWebber Incorporated Norwest Investment Services, Inc. Merrill Lynch Capital Markets George K. Baum & Company Lasater & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield
1987A	15,000,000	PaineWebber Incorporated Merrill Lynch Capital Markets George K. Baum & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe
1987B	25,000,000	PaineWebber Incorporated Citicorp Investment Bank Merrill Lynch Capital Markets George K. Baum & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe

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1987C	25,000,000	PaineWebber Incorporated Citicorp Investment Bank Merrill Lynch Capital Markets George K. Baum & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe
1987D	24,750,000	PaineWebber Incorporated Citicorp Investment Bank Merrill Lynch Capital Markets George K. Baum & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe
1988A	50,000,000	PaineWebber Incorporated George K. Baum & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe
1988B	25,000,000	PaineWebber Incorporated Citicorp Investment Bank Merrill Lynch Capital Markets George K. Baum & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe
1988C	25,000,000	PaineWebber Incorporated Citicorp Investment Bank Merrill Lynch Capital Markets George K. Baum & Company T.J. Raney & Sons Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe
1988D	25,000,000	PaineWebber Incorporated Citicorp Investment Bank Merrill Lynch Capital Markets George K. Baum & Company T.J. Raney & Sons Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe
1988E	50,000,000	PaineWebber Incorporated George K. Baum & Company T.J. Raney & Sons Stephens, Incorporated	BC: Williams & Anderson TC: Orrick, Herrington & Sutcliffe
1989A	50,000,000	PaineWebber Incorporated Stephens, Incorporated George K. Baum & Company T.J. Raney & Sons Chemical Securities, Inc.	BC: Williams & Anderson Wright, Lindsey & Jennings TC: Orrick, Herrington & Sutcliffe
1990A	77,500,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated	BC: Williams & Anderson TC: Kuwak, Rock & Campbell

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1990B	15,900,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated	BC: Williams & Anderson TC: Kutak, Rock & Campbell
1990C	45,390,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated	BC: Williams & Anderson TC: Kutak, Rock & Campbell
1990D	5,250,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated	BC: Williams & Anderson TC: Kutak, Rock & Campbell
1990E	45,390,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated	BC: Williams & Anderson TC: Kutak, Rock & Campbell
1990F	5,250,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated	BC: Williams & Anderson TC: Kutak, Rock & Campbell
1991A	36,000,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated Llama Company	BC: Williams & Anderson TC: Kutak, Rock & Campbell
1991B	14,000,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated Llama Company	BC: Williams & Anderson TC: Kutak, Rock & Campbell
1991C	36,000,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated Llama Company	BC: Williams & Anderson TC: Kutak, Rock & Campbell
1991D	14,000,000	PaineWebber Incorporated Crews & Associates, Inc. T.J. Raney & Sons Stephens, Incorporated	BC: Williams & Anderson TC: Kutak, Rock & Campbell

DKSN026140

MULTI-FAMILY MORTGAGE REVENUE BONDS:

<u>ISSUE</u>	<u>ORIGINAL ISSUE AMT UNDERWRITER (Lead listed first)</u>	<u>AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)</u>
1980A	7,175,000 E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Friday, Eldredge & Clark
1980B	12,425,000 E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Friday, Eldredge & Clark
1981A	9,200,000 Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Kutak Rock & Huie
1982A	153,075,000 E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Friday, Eldredge & Clark
1982B	8,250,000 E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated George K. Baum & Company	BC: Friday, Eldredge & Clark
1983A	3,435,000 George K. Baum & Company	BC: Wright, Lindsey & Jennings
1985A	11,094,864 Merrill Lynch Capital Markets T.J. Raney & Sons, Incorporated George K. Baum & Company Lasater & Company	BC: Rose Law Firm TC: None
1985B	8,448,794 Merrill Lynch Capital Markets T.J. Raney & Sons, Incorporated George K. Baum & Company Lasater & Company Simmons First National Bank	BC: Rose Law Firm TC: None
1985C	4,475,000 Merrill Lynch Capital Markets T.J. Raney & Sons, Incorporated George K. Baum & Company Lasater & Company	BC: Rose Law Firm TC: None
1985D	10,575,352 Merrill Lynch Capital Markets T.J. Raney & Sons, Incorporated George K. Baum & Company Lasater & Company Simmons First National Bank	BC: Rose Law Firm TC: None

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OTHER REVENUE BONDS:

HOME IMPROVEMENT

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1981A	16,000,000	E.F. Hutton & Company Inc. Stephens Inc. T.J. Raney & Sons, Incorporated	BC: Friday, Eldredge & Clark
1984	3,250,000	Simmons First National Bank of Pine Bluff, Arkansas	BC: Wright, Lindsey & Jennings

COMMUNITY DEVELOPMENT NOTES

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1985	21,000,000	E.F. Hutton & Company Inc. Stephens Incorporated T.J. Raney & Sons, Inc.	BC: Rose Law Firm TC: Wright, Lindsey & Jennings

VARIABLE RATE DEMAND REVENUE BONDS (Higher Education Capital Asset Program)

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1985A	72,500,000	PaineWebber Incorporated George K. Baum & Company Lasater & Company T.J. Raney & Sons, Incorporated Stephens, Incorporated	BC: Wright, Lindsey & Jennings TC: Webster & Sheffield

CAPITAL ASSET ASSET FINANCING PROGRAM Local Government Series A through D

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1986	130,000,000	Goldman, Sachs & Company The First Boston Corporation T.J. Raney & Sons, Incorporated Stephens, Incorporated George K. Baum & Company Powell & Satterfield, Inc.	BC: Orrick, Herrington & Sutcliffe, Wright, Lindsey & Jennings

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CAPITAL ASSET ASSET FINANCING PROGRAM State Government Series A through B

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1986	30,000,000	Goldman, Sachs & Company The First Boston Corporation T.J. Raney & Sons, Incorporated Stephens, Incorporated George K. Baum & Company Powell & Satterfield, Inc.	BC: Orrick, Herrington & Suttcliffe; Wright, Lindsey & Jennings

GNMA GUARANTEED BONDS (BMIR Loans - Re incentive Program)

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1988	\$215,625,000	PaineWebber Incorporated	BC: Wright, Lindsey & Jennings TC: Kutak Rock & Campbell

MUNICIPAL REFUNDING COLLATERALIZED MORTGAGE OBLIGATIONS

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1988A	\$63,540,000	Morgan Keegan & Company Stephens Incorporated T.J. Raney & Sons, Inc.	BC: Rose Law Firm TC: Kutak Rock & Campbell

MUNICIPAL REFUNDING COMPOUND ACCRETION BONDS

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1988-1	\$4,885,673	Morgan Keegan & Company Stephens Incorporated T.J. Raney & Sons, Inc.	BC: Rose Law Firm TC: Kutak Rock & Campbell

MULTI-FAMILY MORTGAGE REFUNDING REVENUE BONDS

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1990 Taxable Series	6,455,000	T.J. Raney & Sons	BC: Friday, Eldredge & Clark TC: Kutak, Rock & Campbell
1990 Tax Exempt Series	33,155,000	T.J. Raney & Sons	BC: Friday, Eldredge & Clark TC: Kutak, Rock & Campbell

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1990A	21,675,000	T.J. Raney & Sons Stephens Incorporated Crews & Associates, Inc.	BC: Rose Law Firm TC: Kutak, Rock & Campbell
COLLEGE SAVINGS GENERAL OBLIGATION BONDS			
ISSUE	ORIGINAL ISSUE AMT UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)	
1991A	22,515,643	Dean Witter Reynolds Inc. Crews & Associates A.G. Edwards & Sons, Inc. First Commercial Bank, N.A. Edward D. Jones & Co. Lehman Brothers Llama Company T.J. Raney & Sons Stephens Inc.	BC: Mitchell, Williams, Selig & Tucker TC: none
1991B	32,342,541	Dean Witter Reynolds Inc. Crews & Associates A.G. Edwards & Sons, Inc. First Commercial Bank, N.A. Edward D. Jones & Co. Lehman Brothers Llama Company T.J. Raney & Sons Stephens Inc.	BC: Mitchell, Williams, Selig & Tucker TC: none
1991C	19,996,660	Dean Witter Reynolds Inc. Crews & Associates A.G. Edwards & Sons, Inc. First Commercial Bank, N.A. Edward D. Jones & Co. Lehman Brothers Llama Company T.J. Raney & Sons Stephens Inc.	BC: Mitchell, Williams, Selig & Tucker TC: None
WASTEWATER SYSTEM REVOLVING LOAN REVENUE BONDS			
ISSUE	ORIGINAL ISSUE AMT UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)	
1991A	37,930,000	Prudential Securities Inc. T.J. Raney & Sons Stephens Incorporated Howard, Weil, Labouisse Friedrichs Inc. Crews & Associates, Inc. Llama Company	BC: Rose Law Firm TC: None

DKSN026144

SINGLE FAMILY MORTGAGE REVENUE REFUNDING BONDS

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1991A	58,900,000	George K. Baum & Company Crews & Associates, Inc. T.J. Raney & Sons Stephens Incorporated	BC: Rose Law Firm TC: Kutak Rock & Campbell

INDUSTRIAL DEVELOPMENT REVENUE BONDS:

POOLED COMPOSITE OFFERINGS:

ISSUE	ORIGINAL ISSUE AMT	UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
1987A-E	\$6,975,000	PaineWebber Incorporated Drexel Burnham Lambert George K. Baum & Company	BC: Mitchell, Williams, Selig & Tucker TC: none
1987A-C Taxable	6,355,000	T.J. Raney & Sons, Incorporated Stephens Incorporated	BC: Mitchell, Williams, Selig & Tucker TC: None
1987F-K	6,515,000	T.J. Raney & Sons Stephens Incorporated	BC: Mitchell, Williams, Selig & Tucker TC: None
1988A-D	4,270,000	Shearson Lehman Hutton, Inc. A.G. Edwards & Sons, Inc. PaineWebber Incorporated Thomson McKinnon Securities, Inc. George K. Baum & Company Gabriele, Hueglin & Cashman	BC: Mitchell, Williams, Selig & Tucker TC: None
1988E-H	5,440,000	Prudential-Bache Capital Funding Shearson Lehman Hutton, Inc. PaineWebber Incorporated A.G. Edwards & Sons, Inc. George K. Baum & Company Gabriele, Hueglin & Cashman First Commercial Bank, N.A. Edward H. Jones & Company	BC: Mitchell, Williams, Selig & Tucker TC: None
1988I-L	6,110,000	Merrill Lynch Capital Markets Stephens Incorporated Hill, Crawford & Lanford, Inc. T.J. Raney & Sons Powell & Satterfield, Inc.	BC: Mitchell, Williams, Selig & Tucker TC: None
1989A-E	3,685,000	T.J. Raney & Sons	BC: Mitchell, Williams, Selig & Tucker TC: None

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1989F-I	7,840,000	Prudential-Bache Capital Funding Shearson Lehman Hutton, Inc. Paine Webber Incorporated Dean Witter Reynolds Inc. Edward D. Jones and Co. Crews & Associates, Inc. Donaldson, Lufkin & Jenrette Securities Corporation Gabriele, Hueglin & Cashman The Cherokee Securities Company	BC: Mitchell, Williams, Selig & Tucker TC: None
1989J	3,500,000	T.J. Raney & Sons	BC: Mitchell, Williams, Selig & Tucker TC: None
1990A-D	3,380,000	Merrill Lynch Capital Markets Stephens Incorporated Hill, Crawford & Lanford, Inc. T.J. Raney & Sons, Inc. Powell & Satterfield, Inc. Llama Company	BC: Mitchell, Williams, Selig & Tucker TC: None
1991A-G	6,605,000	Merrill Lynch Capital Markets Stephens Incorporated Hill, Crawford & Lanford, Inc. T.J. Raney & Sons, Inc.	BC: Mitchell, Williams, Selig & Tucker TC: None
1991H-L	4,162,500	Stephens Incorporated Llama Company	BC: Mitchell, Williams, Selig & Tucker TC: None

INDUSTRIAL DEVELOPMENT REVENUE BONDS:SINGLE PROJECT ISSUES:

ISSUE	ORIGINAL ISSUE AMT UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
Planters Lumber Company Project 1985	750,000 The Northern Trust Company, Chicago, Illinois (Private Placement)	BC: Wright, Lindsey & Jennings TC: None
POM, Incorporated Project 1989	2,750,000 First Tennessee National Bank (Private Placement)	BC: Mitchell, Williams, Selig, Jackson & Tucker TC: None
Century Tube Project 1985	3,750,000 T.J. Raney & Sons, Inc. Stephens Incorporated	BC: Friday Law Firm TC: None

DKSN026146

Zero Mountain, Incorporated Project 1987 3,000,000 George K. Baum & Company	BC: Wright, Lindsey & Jennings TC: None
Community Water System Project 1988 1,600,000 T.J. Raney	BC: House, Wallace & Jewell, P.A. & Sons, TC: None
Southwest Homes, Incorporated Project 1988 2,455,000 Stephens Incorporated	BC: Mitchell, Williams, Selig & Tucker TC: None
Superior Graphite Project 1988 4,300,000 American National Bank & Trust Company of Chicago, Ill.	BC: Mitchell, Williams, Selig & Tucker TC: None
Pine Bluff Warehouse Project 1988 720,000 Stephens Incorporated	BC: Rose Law Firm TC: None
Arkansas Freightways Project 1989 8,670,000 Stephens Incorporated	BC: Mitchell, Williams, Selig & Tucker TC: None
Northwest Arkansas Paper Company Project 1989 600,000 First National Bank of Fayetteville, AR.	BC: Mitchell, Williams, Selig & Tucker TC: None
Pine Bluff Warehouse Project 1989 1,045,000 Stephens Incorporated	BC: Rose Law Firm TC: None
Wynwood Nursing Center Project 1989 2,365,000 Stephens Incorporated	BC: Mitchell, Williams, Selig & Tucker TC: None
Good Samaritan Indian Rock Village Project 1989 2,670,000 Stephens Incorporated	BC: Mitchell, Williams, Selig & Tucker TC: None
Standard Motor Products, Inc. Project 1989 2,500,000 T.J. Raney & Sons	BC: Wright, Lindsey & Jennings TC: None
Travis Lumber Company Project 1991A&B 4,000,000 T.J. Raney & Sons	BC: Wright, Lindsey & Jennings TC: None

DKSN026147

HEALTH CARE FACILITIES REVENUE BONDS:

ISSUE	ORIGINAL ISSUE AMT UNDERWRITER (Lead listed first)	AUTHORITY'S COUNSEL (BC) SPECIAL TAX COUNSEL (TC)
Saint Edwards Mercy Medical Center Issue		
1987	\$13,590,000 Shearson Lehman Brothers Inc.	BC: Wright, Lindsey & Jennings TC: None
Sister's of Mercy Health Care Systems, St. Louis, Inc.		
1989A	\$26,460,000 Dillion, Reed & Company, Inc. George K. Baum & Company T.J. Raney & Sons Stephens, Incorporated	BC: Wright, Lindsey & Jennings;
Sister's of Mercy Health Care Systems, St. Louis, Inc.		
1989B	\$25,000,000 Dillion, Reed & Company, Inc. Stephens, Incorporated T.J. Raney & Sons George K. Baum & Company	BC: Wright, Lindsey & Jennings; Wood, Lucksinger & Epstein

DKSN026148

ADFA (AND AHDA) USE OF PROFESSIONAL FIRMS
AS UNDERWRITERS AND BOND COUNSEL

PERIOD	LEAD UNDERWRITERS	OTHER UNDERWRITERS	BOND COUNSEL
1978 AHDA	E.F. Hutton & Company Inc.	Stephens Inc. T.J. Raney & Sons	Rose Law Firm
	TOTAL # OF PARTICIPANTS: 1	TOTAL # OF PARTICIPANTS: 2	TOTAL # OF PARTICIPANTS: 1
1979-1980 AHDA	E.F. Hutton & Company Inc.	Merrill Lynch Capital Markets Stephens Inc. T.J. Raney & Sons	Friday, Eldredge & Clark Rose Law Firm
	TOTAL # OF PARTICIPANTS: 1	TOTAL # OF PARTICIPANTS: 3	TOTAL # OF PARTICIPANTS: 2
1981-1982 AHDA	E.F. Hutton & Company Inc. Stephens Inc.	George K. Baum & Company Stephens Inc. T.J. Raney & Sons	Friday, Eldredge & Clark Kutac, Rock & Campbell
	TOTAL # OF PARTICIPANTS: 2	TOTAL # OF PARTICIPANTS: 3	TOTAL # OF PARTICIPANTS: 2
1983-1984 AHDA	Blyth Eastman Paine Webber George K. Baum & Company PaineWebber Inc. Simmons First National Bank	Chase Manhattan Capital Markets Collins, Locke & Lasater First Boston Corporation George K. Baum & Company Lasater & Company Lazard Freres Merrill Lynch Capital Markets Norwest Investment Services, Inc. Prudential Securities Stephens Inc. T.J. Raney & Sons	Wright, Lindsey & Jennings
	TOTAL # OF PARTICIPANTS: 4	TOTAL # OF PARTICIPANTS: 11	TOTAL # OF PARTICIPANTS: 1

DKSN026171

PERIOD	LEAD UNDERWRITERS	OTHER UNDERWRITERS	BOND COUNSEL
1985-1991 ADFA	<p>First National Bank</p> <p>First Tennessee National Bank</p> <p>American National Bank & Trust</p> <p>Dean Witter</p> <p>Dillion, Reed & Company</p> <p>E.F. Hutton & Company Inc.</p> <p>George K. Baum & Company</p> <p>Goldman, Sachs & Company</p> <p>Merrill Lynch Capital Markets</p> <p>Morgan Keegan & Company</p> <p>Northern Trust Company</p> <p>PlaineWebber Inc.</p> <p>Prudential Securities</p> <p>Shearson Lehman Hutton, Inc.</p> <p>Stephens Inc.</p> <p>T. J. Raney & Sons</p>	<p>A.G. Edwards & Sons, Inc.</p> <p>Chemical Securities, Inc.</p> <p>Cherokee Securities Company</p> <p>Citicorp Investment Bank</p> <p>Crews & Associates, Inc.</p> <p>Dean Witter Reynolds Inc.</p> <p>Donaldson Lufkin & Jenrette Securities Corporation</p> <p>Drexel Burkhham Lambert</p> <p>Edward D. Jones and Co.</p> <p>First Boston Corporation</p> <p>First Commercial Bank, N.A.</p> <p>Gabriele, Hueglin & Cashman</p> <p>George K. Baum & Company</p> <p>Hill, Crawford & Lanford, Inc.</p> <p>Howard, Weil, Labouisse, Friedrichs Inc.</p> <p>Lasater & Company</p> <p>Lehman Brothers</p> <p>Llama Company</p> <p>Merrill Lynch Capital Markets</p> <p>PaineWebber Inc.</p> <p>Powell & Satterfield, Inc.</p> <p>Shearson Lehman Hutton, Inc.</p> <p>Simmons First National Bank</p> <p>Stephens Inc.</p> <p>Thomson McKinnon Securities, Inc.</p> <p>T. J. Raney & Sons</p>	<p>Friday, Eldredge & Clark</p> <p>House, Wallace & Jewell,</p> <p>P.A. & Sons</p> <p>Mitchell, Williams, Selig & Tucker</p> <p>Orrick, Herrington & Sutcliffe</p> <p>Rose Law Firm</p> <p>Williams & Anderson</p> <p>Wood, Luckinsinger & Epstein</p> <p>Wright, Lindsey & Jennings</p>
<p>TOTAL # OF PARTICIPANTS: 16</p> <p>Arkansas Housing Development Authority</p> <p>Arkansas Development Finance Authority</p>			TOTAL # (F PARTICIPANTS: 8

DKSN026172

Lasater & Company

INVESTMENT BANKERS

January 4, 1985

Honorable Bill Clinton
Governor
State Capitol
Little Rock, Arkansas 72201

Dear Governor Clinton:

Don Spears, 36, is married and has two children ages 10 and nine months.

Don lives in Little Rock, but has a successful business in his hometown of Malvern. He is a member of the Board of Directors of First Federal Savings and Loan Association of Malvern and co-owner of Hot Spring County Title Service, Inc.

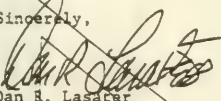
Don is a supporter of yours and participated in raising funds for you during the past campaign. He has the support of his local legislative delegation and also our support.

We consider Don to be a good friend of yours and ours and firmly believe that he would make a fine member of the Arkansas Housing Development Agency Board of Directors.

His background in both real estate and business would enable him to evaluate the circumstances and make fair and honest decisions on issues that will soon be facing the AHDA Board.

Your consideration of Don for appointment to the AHDA is greatly appreciated.

Sincerely,


Dan B. Lasater
Chairman

DRL/lss

DKSN026475

312 Louisiana Street • Little Rock, Arkansas 72201 • 501-376-0069
National Wire: 1-800-643-8072 • Arkansas Wire: 1-800-482-5496

#1 Corporate Plaza, Penthouse D • 110 E. Broward Blvd. • Ft. Lauderdale, Florida 33301 • 305-467-1088
National Wire: 1-800-327-6211 • Florida Wire: 1-800-412-9711

NASD Member Firm / Member Securities Investor Protection Corporation

Donald M. Spears
P.O. Box 622
Malvern, Arkansas 72104
(501) 332-6931

EDUCATION

Graduate of Malvern High School Class of 1966.

Graduate of Ouachita Baptist University with Bachelor of Arts degree in Political Science, May 1970.

Graduate of University of Arkansas School of Law in May 1975.

Professional Affiliations: Arkansas Bar Association
American Bar Association
American Trial Lawyers Association

BUSINESS HISTORY

Served as Hot Spring County Chief Deputy Tax Assessor and was employed by Little Rock Abstract and Title Company maintaining Pulaski County real estate transaction records while attending law school.

Following graduation, practiced law in partnership with J. Winston Bryant until Bryant's election to Secretary of State.

Former Hot Spring County Juvenile Judge.

Former instructor for Henderson State University in business and law education.

Former director of Ouachita Children's Center.

Currently serves as director of First Federal Savings and Loan of Malvern, and owner of Hot Spring County Title Services Inc.

PROFESSIONAL REFERENCES

William R. Wilson, Jr., Little Rock, Arkansas

David M. "Mac" Glover, Malvern, Arkansas

Steve Engstrom, Little Rock, Arkansas

BANKING REFERENCES

Paul Offutt, President, Bank of Malvern

Don Walsh, President, First Federal Savings & Loan Association of Malvern.

DKSN026476

AUTHORITY
ACT 1062 OF 1985

MEMBERS 11
TERM 04 YEARS

BASIS OF REPRESENTATION

TRAVEL

MEMBERS OF THE BOARD OF DIRECTORS OF THE AGENCY SHALL SERVE WITHOUT COMPENSATION, BUT THE AGENCY MAY REIMBURSE ITS BOARD MEMBERS FOR ACTUAL EXPENSES NECESSARILY INCURRED IN THE DISCHARGE OF THEIR OFFICIAL DUTIES.

POS NO	NAME	COMM DATE	QUALIFY DATE	EXP DATE	CONFIRM DATE	APP BY	CH STATUS	DIST	EX OFF
1	BRAHYAN JAMES 531 WASHINGTON ST CAMDEN	06-27-85	07-01-85 71701	01-14-87 OUACHITA	836-5741	BC	4	4	4
2	DAVENPORT MARGARET 203 CAMBRIDGE PL LITTLE ROCK	07-10-85	07-10-85 72207	01-14-88 PULASKI	372-4700	BC	6	2	2
3	FULLER DON RT 1 BOX 270 BRINKLEY	06-28-85	06-28-85 72921	01-14-89 MONROE	734-3121	BC	4	1	1
4	GLASS DAVID 1511 NE 10TH BENTONVILLE	07-05-85	07-10-85 72712	01-14-89 BENTON	273-4244	BC	4	3	3
5	PETERSON MERLE PO BOX 646 DUMAS	06-27-85	06-27-85 71639	01-14-87 DESHA	382-2144	BC	4	4	4
6	PIERCE BILL 2310 S RINGO LITTLE ROCK	07-01-85	07-01-85 72206	01-14-88 PULASKI	376-0703	BC	5	2	2
7	STEPHENS BOBBY 3700 FREE FERRY RD FORT SMITH	06-27-85	07-05-85 72904	01-14-89 SEBASTIAN	782-8601	BC	4	3	3
8	WIECHERN HOWARD 19 SOUTHERN PINES PINE BLUFF	07-10-85	07-10-85 71601	01-14-88 JEFFERSON	10-27-83 535-2013	BC	4	4	4
9	WILLMUTH PAUL 3352 AMY DATESVILLE	07-10-85	07-10-85 72501	01-14-90 INDEPENDENCE	793-9871	BC	4	1	1

DKSN026451

PA020EUS
DATE 01/26/86
POS NO
NAME
CURRENT MEMBERS OF BOARD NUMBER 033
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
PAGE NO 53
R0596

10 WRIGHT GEORGE
4-EAST 28TH ST HOPE
06-27-85 06-19-86 777-8878 BC C 4 4
71801 HEMPSTEAD
11 DIRECTOR OF DFA
9200 WOODFORD DR.
07-15-83 07-19-83 664-4411 BC 5 2 4
LITTLE ROCK 72209 PULASKI

LAWS
THE BOARD OF DIRECTORS OF THE AUTHORITY SHALL CONSIST OF DIRECTOR
OF THE DEPARTMENT OF FINANCE AND ADMINISTRATION, AND 10 PUBLIC
MEMBERS TO BE APPOINTED BY THE GOVERNOR, WITH THE ADVISE AND
CONSENT OF THE SENATE, PROVIDED THAT THE MEMBERS APPOINTED BY THE
GOVERNOR SHALL BE RESIDENTS OF THE STATE AND SHALL HAVE BEEN
QUALIFIED ELECTORS THEREIN FOR AT LEAST 1 YEAR PRECEDING THE TIME
OF APPOINTMENT AND SHALL BE RECOGNIZED BY THEIR PEERS AS
OUTSTANDING IN THE FIELD OF ECONOMIC DEVELOPMENT AND/OR
DEVELOPMENT FINANCE. EACH CONGRESSIONAL DISTRICT IN THE STATE
SHALL BE REPRESENTED BY AT LEAST 1 PUBLIC MEMBER OF THE BOARD OF
DIRECTORS OF THE AUTHORITY. 1 PUBLIC MEMBER OF THE BOARD OF
DIRECTORS SHALL BE A REPRESENTATIVE OF THE AGRICULTURAL BUSINESS
ENTERPRISE INDUSTRY, AND 1 PUBLIC MEMBER SHALL BE A REPRESENTATIVE
OF THE STATE'S ELDERLY POPULATION PURSUANT TO THE REQUIREMENTS OF
ACT 131 OF 1983.

THE GOVERNOR SHALL APPOINT 2 PUBLIC MEMBERS OF THE BOARD FOR A
TERM OF 1 YEAR, 2 FOR A TERM OF 2 YEARS; 3 FOR A TERM OF 3 YEARS;
AND 3 FOR A TERM OF 4 YEARS. THEREAFTER UPON THE EXPIRATION OF
SUCH TERMS, PUBLIC MEMBERS SHALL BE APPOINTED FOR A TERM OF 4
YEARS.

MEMBER SHALL HOLD OFFICE FOR THE TERM OF HIS
APPOINTMENT AND UNTIL HIS SUCCESSOR IS APPOINTED AND QUALIFIED.
ANY VACANCY IN THE BOARD OCCURRING OTHER THAN BY EXPIRATION OF
TERM SHALL BE FILLED BY THE APPOINTMENT OF THE GOVERNOR, BUT
FOR THE UNEXPIRED TERM ONLY. THE TERMS OF THE MEMBERS OF THE
BOARD SHALL EXPIRE ON JANUARY 14.
EACH APPOINTED PUBLIC BOARD MEMBER MAY BE REMOVED FROM OFFICE
BY THE GOVERNOR, FOR CAUSE, AFTER A PUBLIC HEARING AND MAY BE
SUSPENDED BY THE GOVERNOR PENDING THE COMPLETION OF SUCH
HEARING. EACH BOARD MEMBER, BEFORE ENTERING UPON HIS DUTIES,
SHALL TAKE AND SUBSCRIBE AN OATH TO PERFORM THE DUTIES OF HIS
OFFICE FAITHFULLY, IMPARTIALLY AND JUSTLY TO THE BEST OF HIS
ABILITY. A RECORD OF SUCH OATH SHALL BE FILED IN THE OFFICE

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LAUS(CONT.)

634 OF THE SECRETARY OF STATE
635 THE BOARD OF DIRECTORS SHALL, FROM THE PUBLIC MEMBERS OF THE
636 BOARD APPOINTED BY THE GOVERNOR, ANNUALLY AND AT SUCH OTHER
637 TIMES AS MAY BE DEEMED APPROPRIATE BY THE BOARD OF DIRECTORS,
638 ELECT 1 OF THEIR MEMBERS AS A CHAIRMAN AND 1 OF THEIR MEMBERS
639 AS A VICE CHAIRMAN. THE BOARD OF DIRECTORS SHALL ALSO EMPLOY
640 A PRESIDENT WHO SHALL SERVE AT THE WILL OF THE GOVERNOR.

2

#68

Lasater, Inc.

A HOLDING COMPANY

April 3, 1985

The Honorable
Bill Clinton
Governor
State of Arkansas
State Capitol
Little Rock, Arkansas 72201

Dear Governor:

Dan had to be out of town this week visiting with clients in New York and he asked me to forward to you resumes on Ed Willis and Jim Tom Bell. As you remember, you and Dan have discussed Don Spears' appointment to the Arkansas Finance and Development Agency Board on a couple of occasions in the past. We want to reiterate our interest in seeing Spears appointed and to also recommend Willis and Bell to you. We have had a lot of business relationships and personal relationships with both of these prospective candidates and we believe that they would make significant contributions to the Board.

Dan sincerely hopes that you will consider positively both of these appointments and he will be in touch with you by telephone when he returns from New York.

Sincerely,

Patsy L. Thomasson
Patsy L. Thomasson
Special Assistant to the Chairman

PLT/ljs

Enclosure: as stated

cc: Dan R. Lasater

DKSN026582

312 Louisiana Street / Little Rock, Arkansas 72201 / 501-376-0063



STATE OF ARKANSAS
OFFICE OF THE GOVERNOR
State Capitol
Little Rock 72201

Bill Clinton
Governor

April 5, 1985

Patsy L. Thomasson
Special Assistant to the Chairman
Lasater, Inc.
312 Louisiana Street
Little Rock, AR 72201

Dear Patsy:

I received your letter of recommendations for appointment to the Arkansas Finance and Development Agency Board.

I will give your recommendations full consideration when filling vacancies on this board.

Thank you for your interest and for your patience. If I can be of assistance, please feel that you may give me a call.

Sincerely,


Bill Clinton

BC:cg:th

DKSN026581

Collins, Locke & Lasater

March 31, 1983

The Honorable Bill Clinton
Governor
The Capitol
Little Rock, Arkansas

Dear Governor Clinton:

I am writing to express Collins, Locke & Lasater's enthusiastic support of the appointment of Ms. Linda Trent to the position of Executive Director of the Arkansas Housing Development Agency. It is our view that Ms. Trent will provide the Agency with much needed leadership and serve the State in an exemplary fashion.

While on the subject of the AHDA it has come to my attention that some serious consideration is being given the idea of securing the services of a firm to act as Program Administrator for the Agency. While we fully support the concept of efficiency in State government we are not convinced that such a move is timely or desirable and request the opportunity to submit our views to you and your Staff.

I am looking forward to welcoming you and Hillary to our Derby Day party and trust you will find it convenient to attend.

Warmest personal wishes,

David A. Collins
David A. Collins
President & Chief Executive Officer

DAC/pac

DKSN027451

SIPC

Investment Bankers • 312 Louisiana Street • Little Rock, Arkansas 72201

National Wats: 1-800-643-8072 • Arkansas Wats: 1-800-482-8496

NASD MEMBER FIRM

Lasater, Inc.

A HOLDING COMPANY

CK
#22

May 1, 1985

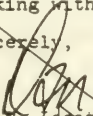
The Honorable
Bill Clinton
Governor of Arkansas
State Capitol
Little Rock, Arkansas 72201

Dear Governor Clinton:

It is with great pleasure that we write to you in support of the appointment of Bill Mathis to the position of Board member, Arkansas Development Finance Authority. Mr. Bill Mathis has distinguished himself in service to the State of Arkansas through loyal and professional conduct as a Board member of the Arkansas Housing Development Agency. As a result of my firms' involvement with the Agency as a co-managing underwriter of its debt, I have become familiar with the motives and conduct of Agency Board members. In all cases Mr. Mathis has fulfilled his role in the best interests of the State of Arkansas.

I heartily recommend this appointment and look forward to working with an active, effective and professional Board.

Sincerely,


Dan R. Lasater

DRL/lr

DKSN026609

Lasater, Inc.

A HOLDING  COMPANY

CG
#22

May 1, 1985


The Honorable
Bill Clinton
Governor of Arkansas
State Capitol
Little Rock, Arkansas 72201

Dear Governor Clinton:

It is with great pleasure that we write to you in support of the appointment of Mort Hardwick to the position of Board member, Arkansas Development Finance Authority. Mr. Hardwick has distinguished himself in service to the State of Arkansas through loyal and professional conduct as a Board member of the Arkansas Housing Development Agency. As a result of my firms' involvement with the Agency as a co-managing underwriter of its debt, I have become familiar with the motives and conduct of Agency Board members. In all cases Mr. Hardwick has fulfilled his role in the best interests of the State of Arkansas.

I heartily recommend this appointment and look forward to working with an active, effective and professional Board.

Sincerely,


Dan R. Lasater

DRL/is

DKSN026606

Lasater, Inc.

A HOLDING COMPANY

May 1, 1985

The Honorable
Bill Clinton
Governor of Arkansas
State Capitol
Little Rock, Arkansas 72201

Dear Governor Clinton:

It is with great pleasure that we write to you in support of the appointment of George Wright, Jr. to the position of Board member, Arkansas Development Finance Authority. Mr. Wright has distinguished himself in service to the State of Arkansas through loyal and professional conduct as a Board member of the Arkansas Housing Development Agency. As a result of my firms' involvement with the Agency as a co-managing underwriter of its debt, I have become familiar with the motives and conduct of Agency Board members. In all cases Mr. Wright has fulfilled his role in the best interests of the State of Arkansas.

I heartily recommend this appointment and look forward to working with an active, effective and professional Board.

Sincerely,

[Signature]
Dan R. Lasater

DRL/ls

DKSN026616

[Handwritten notes:]
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letter



STATE OF ARKANSAS
OFFICE OF THE GOVERNOR
State Capitol
Little Rock 72201

Bill Clinton
Governor

May 23, 1985

Dan Lasater
Lasater, Inc.
A Holding Company
312 Louisiana Street
Little Rock, AR 72201

Dear Dan:

I received your letter recommending Bill Mathis for an appointment to the Arkansas Development Finance Authority Board.

I will give your recommendation full consideration when making appointments to this new board.

Thank you for your interest and for your patience. If I can be of assistance, please feel that you may give me a call.

Sincerely,

Bill Clinton

BC:cg:th

DKSN026608



STATE OF ARKANSAS
OFFICE OF THE GOVERNOR
State Capitol
Little Rock 72201

Bill Clinton
Governor

May 23, 1985

Dan Lasater
Lasater, Inc.
A Holding Company
312 Louisiana Street
Little Rock, AR 72201

Dear Dan:

I received your letter recommending Mort Hardwick for an appointment to the Arkansas Development Finance Authority Board.

I will give your recommendation full consideration when making appointments to this new board.

Thank you for your interest and for your patience. If I can be of assistance, please feel that you may give me a call.

Sincerely,

Bill Clinton
Bill Clinton

BC:cg:ch

DKSN02605

STATE OF ARKANSAS
OFFICE OF THE GOVERNOR
State Capitol
Little Rock 72201

Bill Clinton
Governor

May 23, 1985

Dan Laeater
Laeater, Inc.
A Holding Company
312 Louisiana Street
Little Rock, AR 72201

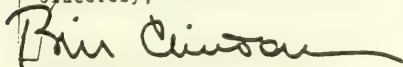
Dear Dan:

I received your letter recommending George Wright, Jr. for an appointment to the Arkansas Development Finance Authority Board.

I will give your recommendation full consideration when making appointments to this new board.

Thank you for your interest and for your patience. If I can be of assistance, please feel that you may give me a call.

Sincerely,



Bill Clinton

BC:cg:th

DKSN026615

BOARD OR COMMISSION ARKANSAS DEVELOPMENT FINANCE AUTHORITY

RECOMMENDATIONS:

Lyndell FayJim Tom BellRay AbransonDan SpearsJohn GreegVirgil YoungDr Clint Johnson*(Has been applied to for help in
Hendrix College Comm)*Charles M. StoutFred PickensJames Stogaugh*(On the Arkansas River Comm)*Jim CovenLarry HaleBob NormanNeil Maynard

by:

Personal request
Senator AllenDan LasaterHal DavisPersonal requestDan LasaterPersonal requestRep John WardClyde ReesePersonal requestMarlin JacksonSenator BradfordSenator Knox NelsonPersonal requestPersonal requestPersonal requestWanda

DKSN026397

ARKANSAS STATE POLICE
COMMUNICATION SYSTEMS FINANCING ALTERNATIVES
OCTOBER 1, 1984

We have spent a considerable amount of time in an attempt to locate a feasible financing program for our proposed communication system. Several firms have discussed the various financial aspects of this system, and some alternatives are listed:

1. ~~An outright Purchase~~
2. Lease Purchase
3. Escrow Funding - Lease Purchase
4. Issuance of Debt
5. Certificates of Participation

A detailed schedule of the various alternatives are attached for your information.

DKSN017816

ACT 817 1985

A Bill

325

State of Arkansas
75th General Assembly
Regular Session, 1985

By: Joint Budget Committee

As introduced 1/20/85

For An Act To Be Entitled

"AN ACT AUTHORIZING THE LEASING OF COMMUNICATIONS EQUIPMENT
FOR THE DEPARTMENT OF THE ARKANSAS STATE POLICE; PROVIDING FOR
THE PAYMENT AND SECURITY OF THE COSTS OF THE EQUIPMENT"; AND
FOR OTHER PURPOSES."

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. This Act shall be known and may be cited as the
"Department of Arkansas State Police Communications Equipment Leasing Act".

SECTION 2. The General Assembly finds (a) that the existing com-
munications equipment used by the Department of Arkansas State Police (i)
has poor radio coverage, (ii) has the problems of public monitoring and lack
of user privacy, and (iii) is subject to unauthorized usage and interference
from other parties; and (b) that portions of the existing communications
equipment are (i) worn out, (ii) obsolete and expensive to repair and main-
tain, and (iii) specially designed mobile and portable units having limited
utility.

The General Assembly hereby determines that adequate and modern com-
munications equipment for the enhancement of state-wide law enforcement is
essential to the safety and welfare of the people of this State.

It is hereby legislatively determined that adequate and modern com-
munications equipment needs to be acquired in order to replace the existing
communications equipment and the most feasible and least expensive way of
financing the same is by authorizing a lease-purchase agreement under the
authority of this Act.

SECTION 3. DEFINITIONS. Whenever used in this Act, unless a different
meaning clearly appears from the context:

"Acquire" means to acquire (by lease, lease-purchase or otherwise),

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PRESIDENT OF SENATE

1 construct, repair, alter, install, restore or place on any land, or in any
 2 building or motor vehicle any communications equipment, by negotiation or
 3 bidding upon such terms and conditions as are determined by the Commission
 4 to be in the best interests of the Department and that will most effectively
 5 serve the purposes of this Act.

6 "Act 231" means Act 231 of 1945, as now in effect or as hereafter
 7 amended.

8 "Commission" means the Arkansas State Police Commission, being the Com-
 9 mission created by Act 231, or any successor agency.

10 "Communications Equipment" means public safety communication equipment
 11 and systems; including buildings, structures, furnishings, and fixtures
 12 used directly for public safety purposes in connection with the operation
 13 thereof, including, but not limited to, radio broadcast and receiving,
 14 telegraph, television, teletype, microwave transmission, and similar systems
 15 of communication by voice, or conveyance of words, signals, or images by
 16 electronic or electrical means.

17 "Cost", as applied to communications equipment, means and includes any
 18 and all costs of such equipment and, without limiting the generality of the
 19 foregoing, shall include the following:

20 (i) all costs of the acquisition of any such communications equip-
 21 ment and all costs incident or related thereto;

22 (ii) the cost of architectural, engineering, legal and related
 23 services; the cost of the preparation of plans, specifications, stu-
 24 dies, surveys and estimates of cost and of revenue; and all other
 25 expenses necessary or incident to planning, providing or determining
 26 the need for or the feasibility and practicability of such communications
 27 equipment;

28 (iii) any and all costs paid or incurred in connection with the
 29 financing of such communications equipment, including out-of-pocket
 30 expenses, the cost of financing, legal, accounting, financial advisory,
 31 and consulting fees, expenses and disbursements; the cost of any policy
 32 of insurance, letter of credit or guaranty; the cost of printing,
 33 engraving and reproduction services; and the cost of the initial or
 34 acceptance fee of any trustee or paying agent.

35 "Department" means the Department of Arkansas State Police, created by
 36 Act 231, and any successor agency.

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1 "Director" means the Director of the Department of Arkansas State
2 Police.

3 "Lease or Lease-Purchase Agreement" means the contract entered into by
4 the Commission to acquire the communications equipment.

5 "Lease Payments" means payments to be made by the Department from
6 pledged revenues or other legally available sources to pay costs of com-
7 munications equipment.

8 "Pledged Revenues" means all revenues authorized by Section 5 of this
9 Act to be pledged for the security and payment of the lease.

10
11 SECTION 4. In addition to the powers, purposes, and authorities set
12 forth elsewhere in this Act or in other laws, the Commission is hereby
13 authorized and empowered to:

14 (a) Acquire, construct, repair, renovate, alter, maintain and
15 equip communications equipment for use by the Department, provided that
16 communications equipment acquired under the authority of this Act shall
17 not be used for the transmission of telephonic messages which bypass
18 the public telephone network.

19 (b) Contract for the lease, lease purchase or purchase of the com-
20 munications equipment on such terms and conditions as are specified by
21 this Act and approved by the Director with the consent of the
22 Commission and to provide for the payment of the cost of acquisition
23 from any legally available source or sources, including, without limi-
24 tation, the revenues authorized by Section 5 of this Act, and funds
25 appropriated and made available under Act 231, and funds, if any,
26 appropriated for the communications equipment.

27 (c) Purchase, acquire, lease, lease purchase or rent, and receive
28 bequests or donations of, or otherwise acquire, sell, trade, or barter,
29 any property (real, personal or mixed) and convert such property into
30 money and/or other property;

31 (d) Contract and be contracted with;

32 (e) Apply for, receive, accept and use any moneys and property
33 from the Government of the United States of America, any agency, any
34 State or governmental body or political subdivision, any public or pri-
35 vate corporation or organization of any nature, or any individual;

36 (f) Invest and reinvest any of its moneys (in securities, obliga-

PRESIDENT OF SENATE

DKSN018195

tions, banking arrangements or investment agreements selected by the Commission);

(g) Make and execute all other instruments necessary or convenient for the performance of its duties and the exercise of its powers and functions under this Act;

(h) In connection with the acquisition and financing of the costs of communication equipment, employ attorneys, accountants, underwriters, and financial advisors, and such other advisors, consultants, and agents as may be necessary in its judgement, and to fix their compensation;

(i) Procure insurance against any loss in connection with its property and other assets, in such amounts and from such insurers as it may deem advisable, including the power to pay premiums on any such insurance.

(j) Procure insurance or guaranties from any public or private entities, including any department, agency or instrumentality of the United States of America, to secure payment of any lease entered into under the authority of this Act, including the power to pay premiums on any such insurance or guaranty;

(k) To arrange for the use of such communications equipment by any federal, state or local governmental agency or any other person, from time to time, as any of such communications equipment is not needed by the Department, and to collect fees and charges, as the Commission determines to be reasonable, in connection with the use of any communications equipment by any other person;

(l) To cooperate with and exchange services and information with any federal, state or local governmental agency;

(m) Take such other action, not inconsistent with law, as may be necessary, convenient or desirable to carry out the powers, purposes and authorities set forth in this Act and to carry out the intent of this Act. All such powers, purposes and authorities set forth above, except those relating to the contracting for the lease, purchase or lease-purchase of the communications equipment, may be carried out by the Department.

SECTION 5. (a) The lease payments and other costs relating to the

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H. L. L. L.

PRESIDENT OF STATISTICAL SOCIETY

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1 maintenance of necessary funds and reserves, except that the lease may provide
 2 for the withdrawal, for other lawful purposes, of surplus moneys, as defined
 3 in the lease. Nothing in this Section 5 is intended to prohibit the
 4 Department from investing moneys deposited into the Department of Arkansas
 5 State Police Communications Equipment Lease Fund, as provided in this Act.
 6 The provisions of this Section shall expire upon payment of the final costs
 7 authorized under the aforementioned agreement, and any balances remaining in
 8 the Department of Arkansas State Police Communications Equipment Lease Fund
 9 shall be deposited in the State Treasury to the credit of the Department of
 10 Arkansas State Police Fund as a non-revenue receipt.

11 (b) So long as there are remaining any lease payments to be made, the
 12 General Assembly may eliminate or change the driver's license fees referred
 13 to as pledged revenues above, under Act 28 of 1973, as now or hereafter
 14 amended, or any subsequent similar law, but only on condition that there
 15 is always maintained in effect and made available for the payment of lease
 16 payments sources of revenue which produce revenues at least sufficient in
 17 amount to provide for the payment when due of the lease payments.

18
 19 SECTION 6. The Commission shall submit any contract, agreement, or
 20 proposal, as authorized by this Act, to the Arkansas Communications Study
 21 Committee and to the Arkansas Legislative Council prior to any obligation
 22 being incurred by the Commission for their advice and counsel.

23
 24 SECTION 7. This act shall be liberally construed to accomplish the
 25 intent and purposes thereof and shall be the sole authority required for the
 26 accomplishment of such purposes. To this end, it shall not be necessary to
 27 comply with general provisions of other laws dealing with public commodities
 28 and public facilities, their acquisition, construction, leasing, encumbering
 29 or disposition, provided that the Commission shall comply with Subsection
 30 (a) through (d) of Section 8 of Act No. 884 of 1977, as amended by Section 2
 31 of Act 820 of 1979 before acquiring any communications equipment authorized
 32 under this Act, and provided that the Commission shall submit any Invitation
 33 or Request for Bids, Quotes, or Proposals, and the procedures to be used in
 34 evaluating the same, to the Administrator of the Office of State Purchasing
 35 of the Department of Finance and Administration for his or her review and
 36 written approval prior to any obligation being incurred by the Commission or

PRESIDENT OF SENATE

DKSN018198

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ELS146

AS ENCLOSED 3/10/85

H.B. 911

1 the Department as such obligation relates to any acquisition authorized and
 2 defined by this Act. The enumeration of any object, purpose, power, manner,
 3 method and thing shall not be deemed to exclude like or similar objects,
 4 purposes, powers, manners, methods or things.

6 SECTION 8. The interest portion of any costs of acquiring communications
 7 equipment, authorized by this Act, shall be exempt from state, county and muni-
 8 cipal income, inheritance and estate taxes.

10 SECTION 9. The provisions of this Act are hereby declared to be
 11 severable. If any provision of this Act, shall be held invalid or inappli-
 12 cable to any person, firm or circumstance, such invalidity or inapplicabi-
 13 lity shall not affect the validity or applicability of the remainder of the
 14 Act.

16 SECTION 10. This Act shall be the complete and sole authority for the
 17 accomplishment of the purposes hereof. To the extent that there is a
 18 conflict between the provisions of this Act and Act No. 231, the provisions
 19 of this Act shall govern. All laws and parts of laws in conflict herewith
 20 are hereby repealed to the extent of such conflict.

22 SECTION 11. The Seventy-Fifth General Assembly hereby finds and
 23 declares the present communications equipment for the Department is not ade-
 24 quate and that there is an urgent need that modern communications equipment
 25 be acquired in order that the Department may continue to carry out its law
 26 enforcement responsibilities in an effective manner. Therefore, an
 27 emergency is declared to exist and this Act being necessary for the preser-
 28 vation of the public peace, health and safety shall be effective upon its
 29 passage and approval.

32 /s/ J. Miller

33 4/4/85

34 APPROVED BY

35 GOVERNOR

DKSN018199

MINUTES OF ARKANSAS STATE POLICE COMMISSION MEETING
APRIL 4, 1985 - PAGE 3

NEW BUSINESS: (Cont'd)

Legislative Report (cont'd)

House Bill 94 - Allows for 30-year retirement at any age with no penalty.

House Bill 399 - Classifies as a felony the installation of booby traps on a person's property or property of another person.

Criminal Investigation Division Report

The regular monthly report for the Criminal Investigation Division was not available but Colonel Goodwin gave a brief report on an undercover operation in Chicot, Drew, and Ashley Counties. He said as of yesterday afternoon, 85 felony warrants on drug violations were being processed and served as a result of a three-month investigation. Also, several vehicles were confiscated in the operation.

State Police Communications Act

House Bill 944, which has not at this time been signed by the Governor, authorizes the State Police Commission to acquire communications equipment for the State Police and to enter into a lease or lease-purchase agreement in connection with the acquisition and financing of the equipment. The lease payments and other costs relating to the communications equipment will be paid by revenue derived from driver's license fees to be dedicated for that purpose beginning July 1, 1985. The money will be deposited in a bank or banks and be designated as the "Department of Arkansas State Police Communications Lease Fund." The funds will continue to be dedicated until the equipment is paid for. There is no time limit set for payment but it is estimated that it will take ten years.

The Act will allow the Commission to continue negotiations with Motorola, which is the sole supplier of the 800 MHz system being considered by the Department.

The Commission also has the authority, under the Act, to employ attorneys, accountants, underwriters, and financial advisors as may be necessary, in its judgment, and set their fees; but the Commission feels that in-house expertise should be utilized whenever possible.

The Act will also allow the Commission to proceed without adhering to normal state processes, but prior to any obligation being incurred by the Commission, any contract, agreement, or proposal must be submitted to the Communications Study Committee and Legislative Council for their review.

A recommendation was made that a financial team be selected as soon as possible so that they may be involved in the negotiations with Motorola.

After a lengthy discussion between members of the Commission, Mr. Ed Erxleben and Mr. Dudley Meadows of State Purchasing, and representatives of several financial firms concerning procedures to follow relating to the acquisition and financing of the communications equipment, the Commission agreed to begin immediately the process of selecting a financial institution to handle the financing.

The Commission agreed to solicit proposals from only those companies doing business in Arkansas.

A letter will be mailed on Monday, April 8, 1985 to financial institutions in the state seeking proposals, with a cut-off date of two weeks from date of letter for proposals to be received.

DKSN027584

MINUTES OF MEETING OF FINANCIAL SCREENING COMMITTEE FOR COMMUNICATIONS SYSTEM

May 3, 1985

The following members of the Committee met on May 3, 1985 in the Board Room of State Police Administrative Headquarters, 3 Natural Resources Drive in Little Rock:

Colonel T. L. Goodwin, Co-Chairman
Major Jim Tyler
Mr. David Moseley
Mr. Ed Erxleben
Mr. Dudley Meadows

The meeting was convened at 9:30 a.m.

The Committee reviewed each financing proposal for the new Arkansas State Police Communications System which had been submitted on or prior to the cut-off date of 9:00 a.m., April 22, 1985.

After discussion of all proposals, a motion was made by Major Tyler that the firms (alphabetically listed) of Dabbs Sullivan; First Capital Resources; Raney, Hutton, Lasater; and Stephens, Inc. be presented to the full Screening Committee for their consideration. Motion was seconded by Mr. Meadows. Motion carried unanimously.

The Committee, however, did express concern as to the recent publicity and admission of guilt by the firm of E. F. Hutton and how it would be perceived by the public and the financial community.

The meeting was adjourned at 11:15 a.m., May 3, 1985.


Colonel T. L. Goodwin, Co-Chairman

DKSN001396

19-May-85

STATE POLICE PROPOSAL ANALYSIS
STEPHENS, INC.

BOND PROCEEDS INVESTMENT RATE	ANNUAL	MONTHLY
LESS THAN 1 YEAR	8.50%	1%
1 TO 5 YEARS	10.00%	5%
DISCOUNT INTEREST RATE	10.00%	5%
RESERVE FUND INTEREST RATE	10.00%	5%
INITIAL EQUIPMENT PAYMENT FUND:	23,000,000	
INITIAL RESERVE FUND:	(1,111,000)	
PRESENT VALUE NET PAYMENTS:	(18,578,396)	

DATE			TOTAL NET REVENUE WITH INTEREST	NET PAYMENT	PRESENT VALUE NET PAYMENT	CUMULATIVE PRESENT VALUE NET PAYMENT
MO	YR	NO.	BOND PAYMENT	NET REVENUE		
6	85	1	0	172,408	0	0
7	85	2	0	158,242	0	0
8	85	3	0	158,242	0	0
9	85	4	0	158,242	0	0
10	85	5	0	158,242	0	0
11	85	6	0	158,242	0	0
12	85	7	0	158,242	0	0
1	86	8	(1,596,000)	(1,437,758)	(283,749)	(283,749)
2	86	9	0	158,242	0	(283,749)
3	86	10	0	144,075	0	(283,749)
4	86	11	0	144,075	0	(283,749)
5	86	12	0	115,742	0	(283,749)
6	86	13	0	115,742	0	(283,749)
7	86	14	(1,601,000)	(1,485,258)	(792,025)	(705,149)
8	86	15	0	82,408	0	(970,093)
9	86	16	0	82,408	0	(970,093)
10	86	17	0	82,408	0	(970,093)
11	86	18	0	49,075	0	(970,093)
12	86	19	0	49,075	0	(970,093)
1	87	20	(1,600,000)	(1,550,925)	(1,197,421)	(1,014,295)
2	87	21	0	9,908	0	(1,984,593)
3	87	22	0	9,908	0	(1,984,593)
4	87	23	0	9,908	0	(1,984,593)
5	87	24	0	9,908	0	(1,984,593)
6	87	25	0	9,908	0	(1,984,593)
7	87	26	(1,597,000)	(1,587,092)	(1,536,487)	(1,238,288)
8	87	27	0	9,908	0	(3,222,581)
9	87	28	0	9,908	0	(3,222,581)
10	87	29	0	9,908	0	(3,222,581)
11	87	30	0	9,908	0	(3,222,581)
12	87	31	0	9,908	0	(3,222,581)
1	88	32	(1,599,000)	(1,589,092)	(1,538,487)	(1,179,674)
2	88	33	0	(9,253)	(9,253)	(7,040)

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3	88	34	0	(9,258)	0	(9,258)	(6,982)	(4,416,577)
4	88	35	0	(9,258)	0	(9,258)	(6,925)	(4,423,502)
5	88	36	0	(9,258)	0	(9,258)	(6,867)	(4,430,369)
6	88	37	0	(9,258)	0	(9,258)	(6,811)	(4,437,180)
7	88	38	(1,599,000)	(1,608,258)	0	(1,608,258)	(1,173,273)	(5,610,453)
8	88	39	0	(9,258)	0	(9,258)	(6,758)	(5,617,151)
9	88	40	0	(9,258)	0	(9,258)	(6,643)	(5,623,754)
10	88	41	0	(9,258)	0	(9,258)	(6,588)	(5,630,382)
11	88	42	0	(9,258)	0	(9,258)	(6,534)	(5,636,916)
12	88	43	0	(9,258)	0	(9,258)	(6,480)	(5,643,376)
1	89	44	(1,597,000)	(1,606,258)	0	(1,606,258)	(1,114,895)	(6,758,291)
2	89	45	0	(9,258)	0	(9,258)	(6,373)	(6,764,654)
3	89	46	0	(9,258)	0	(9,258)	(6,320)	(6,770,984)
4	89	47	0	(9,258)	0	(9,258)	(6,268)	(6,777,252)
5	89	48	0	(9,258)	0	(9,258)	(6,216)	(6,783,469)
6	89	49	0	(9,258)	0	(9,258)	(6,165)	(6,789,633)
7	89	50	(1,599,000)	(1,608,258)	0	(1,608,258)	(1,062,061)	(7,851,695)
8	89	51	0	(9,258)	0	(9,258)	(6,063)	(7,857,758)
9	89	52	0	(9,258)	0	(9,258)	(6,013)	(7,863,772)
10	89	53	0	(9,258)	0	(9,258)	(5,964)	(7,869,735)
11	89	54	0	(9,258)	0	(9,258)	(5,914)	(7,875,650)
12	89	55	0	(9,258)	0	(9,258)	(5,866)	(7,881,515)
1	90	56	(1,598,000)	(1,607,258)	0	(1,607,258)	(1,009,845)	(8,691,360)
2	90	57	0	(9,258)	0	(9,258)	(5,769)	(8,697,129)
3	90	58	0	(9,258)	0	(9,258)	(5,721)	(8,702,651)
4	90	59	0	(9,258)	0	(9,258)	(5,674)	(8,708,355)
5	90	60	0	(9,258)	0	(9,258)	(5,627)	(8,714,152)
6	90	61	0	(9,258)	0	(9,258)	(5,581)	(8,719,732)
7	90	62	(1,600,000)	(1,609,258)	0	(1,609,258)	(961,989)	(9,681,721)
8	90	63	0	(9,258)	0	(9,258)	(5,489)	(9,687,210)
9	90	64	0	(9,258)	0	(9,258)	(5,443)	(9,692,653)
10	90	65	0	(9,258)	0	(9,258)	(5,398)	(9,698,052)
11	90	66	0	(9,258)	0	(9,258)	(5,354)	(9,703,405)
12	90	67	0	(9,258)	0	(9,258)	(5,310)	(9,708,715)
1	91	68	(1,600,000)	(1,609,258)	0	(1,609,258)	(915,262)	(10,623,777)
2	91	69	0	(9,258)	0	(9,258)	(5,222)	(10,629,199)
3	91	70	0	(9,258)	0	(9,258)	(5,179)	(10,634,378)
4	91	71	0	(9,258)	0	(9,258)	(5,136)	(10,639,514)
5	91	72	0	(9,258)	0	(9,258)	(5,094)	(10,644,608)
6	91	73	0	(9,258)	0	(9,258)	(5,052)	(10,649,659)
7	91	74	(1,597,000)	(1,606,258)	0	(1,606,258)	(869,181)	(11,718,860)
8	91	75	0	(9,258)	0	(9,258)	(4,968)	(11,723,809)
9	91	76	0	(9,258)	0	(9,258)	(4,927)	(11,728,736)
10	91	77	0	(9,258)	0	(9,258)	(4,887)	(11,733,623)
11	91	78	0	(9,258)	0	(9,258)	(4,846)	(11,738,469)
12	91	79	0	(9,258)	0	(9,258)	(4,806)	(11,743,275)
1	92	80	(1,597,000)	(1,606,258)	0	(1,606,258)	(826,962)	(12,570,237)
2	92	81	0	(9,258)	0	(9,258)	(4,727)	(12,574,964)
3	92	82	0	(9,258)	0	(9,258)	(4,688)	(12,579,653)
4	92	83	0	(9,258)	0	(9,258)	(4,649)	(12,584,302)
5	92	84	0	(9,258)	0	(9,258)	(4,611)	(12,588,913)
6	92	85	0	(9,258)	0	(9,258)	(4,573)	(12,593,486)
7	92	86	(1,599,000)	(1,608,258)	0	(1,608,258)	(787,773)	(13,381,259)
8	92	87	0	(9,258)	0	(9,258)	(4,498)	(13,385,756)
9	92	88	0	(9,258)	0	(9,258)	(4,460)	(13,390,216)
10	92	89	0	(9,258)	0	(9,258)	(4,423)	(13,394,640)

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1	92	90	0	(9,258)	0	(9,258)	(4,387)(13,399,027)
1	92	91	0	(9,258)	0	(9,258)	(4,351)(13,403,376)
1	93	92	(1,599,000)	(1,608,258)	0	(1,608,258)	(749,508)(14,152,886)
2	93	93	0	(9,258)	0	(9,258)	(4,279)(14,157,185)
3	93	94	0	(9,258)	0	(9,258)	(4,244)(14,161,409)
4	93	95	0	(9,258)	0	(9,258)	(4,209)(14,165,517)
5	93	96	0	(9,258)	0	(9,258)	(4,174)(14,169,791)
6	93	97	0	(9,258)	0	(9,258)	(4,139)(14,173,930)
7	93	98	(1,597,000)	(1,606,258)	0	(1,606,258)	(712,215)(14,686,146)
8	93	99	0	(9,258)	0	(9,258)	(4,071)(14,690,217)
9	93	100	0	(9,258)	0	(9,258)	(4,036)(14,694,254)
10	93	101	0	(9,258)	0	(9,258)	(4,004)(14,698,259)
11	93	102	0	(9,258)	0	(9,258)	(3,971)(14,702,230)
12	93	103	0	(9,258)	0	(9,258)	(3,938)(14,906,168)
1	94	104	(1,597,000)	(1,606,258)	0	(1,606,258)	(677,620)(15,583,788)
2	94	105	0	(9,258)	0	(9,258)	(3,873)(15,587,662)
3	94	106	0	(9,258)	0	(9,258)	(3,841)(15,591,533)
4	94	107	0	(9,258)	0	(9,258)	(3,810)(15,595,313)
5	94	108	0	(9,258)	0	(9,258)	(3,778)(15,599,091)
6	94	109	0	(9,258)	0	(9,258)	(3,747)(15,602,838)
7	94	110	(1,600,000)	(1,609,258)	0	(1,609,258)	(645,910)(16,248,748)
8	94	111	0	(9,258)	0	(9,258)	(3,685)(16,252,434)
9	94	112	0	(9,258)	0	(9,258)	(3,655)(16,256,089)
10	94	113	0	(9,258)	0	(9,258)	(3,625)(16,259,713)
11	94	114	0	(9,258)	0	(9,258)	(3,595)(16,263,308)
12	94	115	0	(9,258)	0	(9,258)	(3,565)(16,266,873)
1	95	116	(1,597,000)	(1,606,258)	0	(1,606,258)	(614,154)(16,681,027)
2	95	117	0	(9,258)	0	(9,258)	(3,506)(16,684,533)
3	95	118	0	(9,258)	0	(9,258)	(3,477)(16,688,011)
4	95	119	0	(9,258)	0	(9,258)	(3,449)(16,691,459)
5	95	120	0	(9,258)	0	(9,258)	(3,420)(16,694,879)
6	95	121	0	(9,258)	0	(9,258)	(3,392)(16,698,271)
7	95	122	(1,596,000)	(1,605,258)	0	(1,605,258)	(583,233)(17,481,504)
8	95	123	0	(9,258)	0	(9,258)	(3,336)(17,484,840)
9	95	124	0	(9,258)	0	(9,258)	(3,308)(17,488,148)
10	95	125	0	(9,258)	0	(9,258)	(3,281)(17,491,429)
11	95	126	0	(9,258)	0	(9,258)	(3,254)(17,494,683)
12	95	127	0	(9,258)	0	(9,258)	(3,227)(17,497,910)
1	96	128	(1,599,000)	(1,608,258)	0	(1,608,258)	(555,748)(18,053,650)
2	96	129	0	(9,258)	0	(9,258)	(3,174)(18,057,024)
3	96	130	0	(9,258)	0	(9,258)	(3,148)(18,060,172)
4	96	131	0	(9,258)	0	(9,258)	(3,122)(18,063,294)
5	96	132	0	(9,258)	0	(9,258)	(3,096)(18,066,390)
6	96	133	0	(9,258)	0	(9,258)	(3,070)(18,069,460)
7	96	134	(1,599,000)	(1,608,258)	0	(1,608,258)	(528,936)(18,598,396)

DKSN001409

09-May-65
09-May-65

STATE POLICE PROPOSAL ANALYSIS
RANEY - HUTTON - LASSEITER

BOND PROCEEDS INVESTMENT RATE	ANNUAL	MONTHLY
LESS THAN 1 YEAR	8.50%	0.71%
1 TO 5 YEARS	10.00%	0.83%
DISCOUNT INTEREST RATE	10.00%	0.83%
RESERVE FUND INTEREST RATE	10.00%	0.83%
INITIAL EQUIPMENT PAYMENT FUND:	23,000,000	
INITIAL RESERVE FUND:	970,875	
PRESENT VALUE NET PAYMENTS:	(18,101,700)	

DATE	MO	YR	NO	BOND PAYMENT	NET REVENUE	TOTAL NET REVENUE WITH INTEREST	NET PAYMENT	PRESENT VALUE NET PAYMENT	CUMULATIVE PRESENT VALUE NET PAYMENT
6 65	1			0	189,757	189,757	0	0	0
7 65	2			0	175,591	366,692	0	0	0
8 65	3			0	175,591	544,680	0	0	0
9 65	4			0	175,591	724,330	0	0	0
10 65	5			0	175,591	905,052	0	0	0
11 65	6			0	175,591	1,087,053	0	0	0
12 65	7			(876,215)	(700,624)	394,129	0	0	0
1 66	8			0	175,591	572,511	0	0	0
2 66	9			0	175,591	752,157	0	0	0
3 66	10			0	161,424	918,909	0	0	0
4 66	11			0	161,424	1,086,841	0	0	0
5 66	12			0	133,091	1,227,631	0	0	0
6 66	13			(1,796,215)	(1,663,124)	0	(426,798)	(383,150)	(383,150)
7 66	14			0	133,091	133,091	0	0	(383,150)
8 66	15			0	99,757	233,791	0	0	(383,150)
9 66	16			0	99,757	335,204	0	0	(383,150)
10 66	17			0	99,757	437,336	0	0	(383,150)
11 66	18			0	66,424	506,657	0	0	(383,150)
12 66	19			(1,788,215)	(1,721,791)	0	(1,211,343)	(1,034,639)	(1,417,789)
1 67	20			0	66,424	66,424	0	0	(1,417,789)
2 67	21			0	27,257	94,152	0	0	(1,417,789)
3 67	22			0	27,257	122,076	0	0	(1,417,789)
4 67	23			0	27,257	150,198	0	0	(1,417,789)
5 67	24			0	27,257	178,519	0	0	(1,417,789)
6 67	25			(1,794,840)	(1,767,583)	0	(1,587,799)	(1,290,305)	(2,708,094)
7 67	26			0	27,257	27,257	0	0	(2,708,094)
8 67	27			0	27,257	54,708	0	0	(2,708,094)
9 67	28			0	27,257	82,352	0	0	(2,708,094)
10 67	29			0	27,257	110,193	0	0	(2,708,094)
11 67	30			0	27,257	138,231	0	0	(2,708,094)
12 67	31			(1,788,302)	(1,761,045)	0	(1,621,835)	(1,253,946)	(3,962,040)
1 68	32			0	27,257	27,257	0	0	(3,962,040)

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09-May-85

2	88	33	0	8,091	35,541	0	0	(3,962,040)
3	88	34	0	8,091	43,893	0	0	(3,962,040)
4	88	35	0	8,091	52,265	0	0	(3,962,040)
5	88	36	0	8,091	60,746	0	0	(3,962,040)
6	88	37	(1,796,215)	(1,786,124)	0	(1,725,948)	(1,270,360)	(5,232,400)
7	88	38	0	8,091	8,091	0	0	(5,232,400)
8	88	39	0	8,091	16,239	0	0	(5,232,400)
9	88	40	0	8,091	24,444	0	0	(5,232,400)
10	88	41	0	8,091	32,708	0	0	(5,232,400)
11	88	42	0	8,091	41,030	0	0	(5,232,400)
12	88	43	(1,790,615)	(1,782,524)	0	(1,741,203)	(1,218,631)	(6,451,031)
1	89	44	0	8,091	8,091	0	0	(6,451,031)
2	89	45	0	8,091	16,239	0	0	(6,451,031)
3	89	46	0	8,091	24,444	0	0	(6,451,031)
4	89	47	0	8,091	32,708	0	0	(6,451,031)
5	89	48	0	8,091	41,030	0	0	(6,451,031)
6	89	49	(1,789,265)	(1,781,174)	0	(1,739,853)	(1,158,539)	(7,609,570)
7	89	50	0	8,091	8,091	0	0	(7,609,570)
8	89	51	0	8,091	16,239	0	0	(7,609,570)
9	89	52	0	8,091	24,444	0	0	(7,609,570)
10	89	53	0	8,091	32,708	0	0	(7,609,570)
11	89	54	0	8,091	41,030	0	0	(7,609,570)
12	89	55	(1,794,327)	(1,786,236)	0	(1,744,915)	(1,105,472)	(8,715,041)
1	90	56	0	8,091	8,091	0	0	(8,715,041)
2	90	57	0	8,091	16,239	0	0	(8,715,041)
3	90	58	0	8,091	24,444	0	0	(8,715,041)
4	90	59	0	8,091	32,708	0	0	(8,715,041)
5	90	60	0	8,091	41,030	0	0	(8,715,041)
6	90	61	(1,793,090)	(1,784,999)	0	(1,743,678)	(1,051,029)	(9,766,070)
7	90	62	0	8,091	8,091	0	0	(9,766,070)
8	90	63	0	8,091	16,239	0	0	(9,766,070)
9	90	64	0	8,091	24,444	0	0	(9,766,070)
10	90	65	0	8,091	32,708	0	0	(9,766,070)
11	90	66	0	8,091	41,030	0	0	(9,766,070)
12	90	67	(1,787,840)	(1,779,749)	0	(1,738,428)	(996,966)	(10,763,037)
1	91	68	0	8,091	8,091	0	0	(10,763,037)
2	91	69	0	8,091	16,239	0	0	(10,763,037)
3	91	70	0	8,091	24,444	0	0	(10,763,037)
4	91	71	0	8,091	32,708	0	0	(10,763,037)
5	91	72	0	8,091	41,030	0	0	(10,763,037)
6	91	73	(1,796,325)	(1,788,274)	0	(1,746,953)	(953,192)	(11,716,228)
7	91	74	0	8,091	8,091	0	0	(11,716,228)
8	91	75	0	8,091	16,239	0	0	(11,716,228)
9	91	76	0	8,091	24,444	0	0	(11,716,228)
10	91	77	0	8,091	32,708	0	0	(11,716,228)
11	91	78	0	8,091	41,030	0	0	(11,716,228)
12	91	79	(1,791,596)	(1,783,505)	0	(1,742,184)	(904,416)	(12,620,645)
1	92	80	0	8,091	8,091	0	0	(12,620,645)
2	92	81	0	8,091	16,239	0	0	(12,620,645)
3	92	82	0	8,091	24,444	0	0	(12,620,645)
4	92	83	0	8,091	32,708	0	0	(12,620,645)
5	92	84	0	8,091	41,030	0	0	(12,620,645)
6	92	85	(1,790,377)	(1,782,286)	0	(1,740,965)	(859,883)	(13,480,528)
7	92	86	0	8,091	8,091	0	0	(13,480,528)
8	92	87	0	8,091	16,239	0	0	(13,480,528)

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9	92	88	0	8,091	24,444	0	0	(13,480,528)
10	92	89	0	8,091	32,708	0	0	(13,480,528)
11	92	90	0	8,091	41,030	0	0	(13,480,528)
12	92	91	(1,790,877)	(1,782,785)	0	(1,741,465)	(318,351)	(14,298,879)
1	93	92	0	8,091	8,091	0	0	(14,298,879)
2	93	93	0	8,091	16,239	0	0	(14,298,879)
3	93	94	0	8,091	24,444	0	0	(14,298,879)
4	93	95	0	8,091	32,708	0	0	(14,298,879)
5	93	96	0	8,091	41,030	0	0	(14,298,879)
6	93	97	(1,789,502)	(1,781,411)	0	(1,740,090)	(777,735)	(15,076,865)
7	93	98	0	8,091	8,091	0	0	(15,076,865)
8	93	99	0	8,091	16,239	0	0	(15,076,865)
9	93	100	0	8,091	24,444	0	0	(15,076,865)
10	93	101	0	8,091	32,708	0	0	(15,076,865)
11	93	102	0	8,091	41,030	0	0	(15,076,865)
12	93	103	(1,794,832)	(1,786,741)	0	(1,745,420)	(742,454)	(15,819,329)
1	94	104	0	8,091	8,091	0	0	(15,819,329)
2	94	105	0	8,091	16,239	0	0	(15,819,329)
3	94	106	0	8,091	24,444	0	0	(15,819,329)
4	94	107	0	8,091	32,708	0	0	(15,819,329)
5	94	108	0	8,091	41,030	0	0	(15,819,329)
6	94	109	(1,792,852)	(1,784,761)	0	(1,743,440)	(705,578)	(16,524,927)
7	94	110	0	8,091	8,091	0	0	(16,524,927)
8	94	111	0	8,091	16,239	0	0	(16,524,927)
9	94	112	0	8,091	24,444	0	0	(16,524,927)
10	94	113	0	8,091	32,708	0	0	(16,524,927)
11	94	114	0	8,091	41,030	0	0	(16,524,927)
12	94	115	(1,792,603)	(1,784,512)	0	(1,743,191)	(671,229)	(17,196,156)
1	95	116	0	8,091	8,091	0	0	(17,196,156)
2	95	117	0	8,091	16,239	0	0	(17,196,156)
3	95	118	0	8,091	24,444	0	0	(17,196,156)
4	95	119	0	8,091	32,708	0	0	(17,196,156)
5	95	120	0	8,091	41,030	0	0	(17,196,156)
6	95	121	(1,790,000)	(1,781,909)	0	(1,740,588)	(637,672)	(17,833,828)
7	95	122	0	8,091	8,091	0	0	(17,833,828)
8	95	123	0	8,091	16,239	0	0	(17,833,828)
9	95	124	0	8,091	24,444	0	0	(17,833,828)
10	95	125	0	8,091	32,708	0	0	(17,833,828)
11	95	126	0	8,091	41,030	0	0	(17,833,828)
12	95	127	(817,925)	(809,834)	0	(768,513)	(267,875)	(18,101,700)

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39-May-85

STATE POLICE PROPOSAL ANALYSIS
DABES SULLIVAN - PROPOSAL 1

		ANNUAL	MONTHLY
BOND PROCEEDS INVESTMENT RATE			
LESS THAN 1 YEAR		8.50%	0.71%
1 TO 5 YEARS		10.00%	0.83%
DISCOUNT INTEREST RATE		10.00%	0.83%
RESERVE FUND INTEREST RATE		10.00%	0.83%
INITIAL EQUIPMENT PAYMENT FUND:		73,000,000	
INITIAL RESERVE FUND:		2,766,933	
PRESENT VALUE NET PAYMENTS:		(19,997,113)	

DATE			BOND PAYMENT	NET REVENUE	TOTAL NET REVENUE WITH INTEREST	NET PAYMENT	PRESENT VALUE NET PAYMENT	CUMULATIVE PRESENT VALUE NET PAYMENT
MO	YR	NO.						
6	85	1	0	204,724	204,724	0	0	0
7	85	2	(1,579,354)	(1,388,796)	0	(1,162,622)	(1,163,155)	(1,163,155)
8	85	3	0	190,558	190,558	0	0	(1,163,155)
9	85	4	0	190,558	382,465	0	0	(1,163,155)
10	85	5	0	190,558	575,732	0	0	(1,163,155)
11	85	6	0	190,558	770,368	0	0	(1,163,155)
12	85	7	0	190,558	966,363	0	0	(1,163,155)
1	86	8	(1,574,729)	(1,384,171)	0	(410,943)	(384,547)	(1,547,702)
2	86	9	0	190,558	190,558	0	0	(1,547,702)
3	86	10	0	176,391	368,299	0	0	(1,547,702)
4	86	11	0	176,391	547,299	0	0	(1,547,702)
5	86	12	0	148,058	699,233	0	0	(1,547,702)
6	86	13	0	148,058	852,244	0	0	(1,547,702)
7	86	14	(1,583,154)	(1,435,056)	0	(576,616)	(513,546)	(2,061,248)
8	86	15	0	114,724	114,724	0	0	(2,061,248)
9	86	16	0	114,724	230,262	0	0	(2,061,248)
10	86	17	0	114,724	346,617	0	0	(2,061,248)
11	86	18	0	81,391	430,463	0	0	(2,061,248)
12	86	19	0	81,391	514,904	0	0	(2,061,248)
1	87	20	(1,575,654)	(1,494,263)	0	(975,712)	(826,493)	(2,887,741)
2	87	21	0	42,224	42,224	0	0	(2,887,741)
3	87	22	0	42,224	84,748	0	0	(2,887,741)
4	87	23	0	42,224	127,573	0	0	(2,887,741)
5	87	24	0	42,224	170,701	0	0	(2,887,741)
6	87	25	0	42,224	214,134	0	0	(2,887,741)
7	87	26	(1,566,529)	(1,524,305)	0	(1,306,653)	(1,054,672)	(3,942,413)
8	87	27	0	42,224	42,224	0	0	(3,942,413)
9	87	28	0	42,224	84,748	0	0	(3,942,413)
10	87	29	0	42,224	127,573	0	0	(3,942,413)
11	87	30	0	42,224	170,701	0	0	(3,942,413)
12	87	31	0	42,224	214,134	0	0	(3,942,413)
1	88	32	(1,577,029)	(1,534,805)	0	(1,319,153)	(1,011,494)	(4,953,907)
2	88	33	0	23,058	23,058	0	0	(4,953,907)

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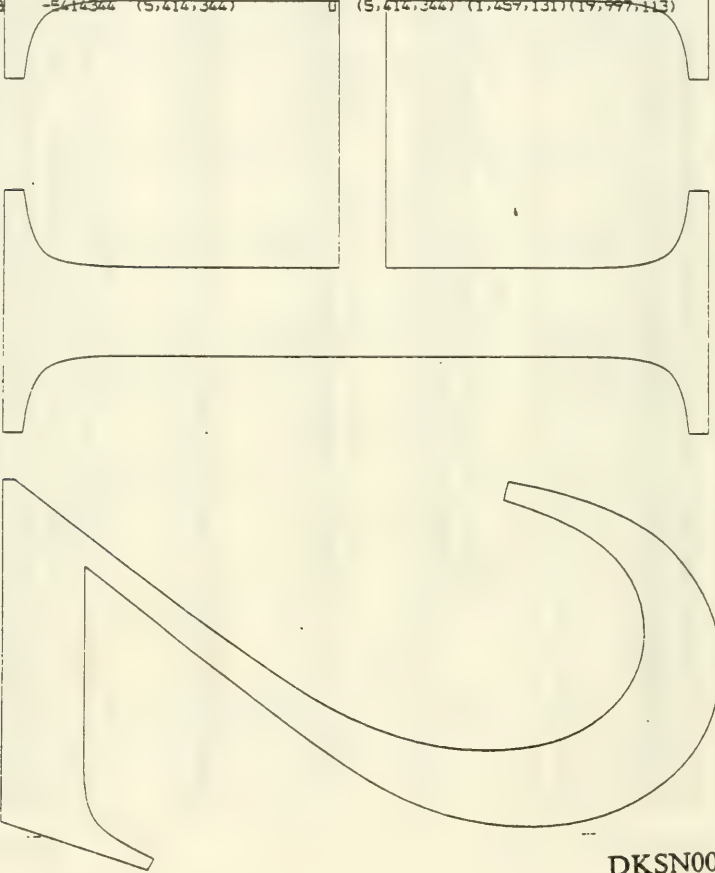
3	88	34	0	23,058	46,279	0	0	(4,953,907)
4	88	35	0	23,058	69,664	0	0	(4,953,907)
5	88	36	0	23,058	93,216	0	0	(4,953,907)
6	88	37	0	23,058	116,934	0	0	(4,953,907)
7	88	38	(1,546,491)	(1,523,433)	0	(1,405,671)	(1,025,480)	(5,979,386)
8	88	39	0	23,058	23,058	0	0	(5,979,386)
9	88	40	0	23,058	46,279	0	0	(5,979,386)
10	88	41	0	23,058	69,664	0	0	(5,979,386)
11	88	42	0	23,058	93,216	0	0	(5,979,386)
12	88	43	0	23,058	116,934	0	0	(5,979,386)
1	89	44	(1,535,566)	(1,512,508)	0	(1,394,746)	(968,086)	(6,947,472)
2	89	45	0	23,058	23,058	0	0	(6,947,472)
3	89	46	0	23,058	46,279	0	0	(6,947,472)
4	89	47	0	23,058	69,664	0	0	(6,947,472)
5	89	48	0	23,058	93,216	0	0	(6,947,472)
6	89	49	0	23,058	116,934	0	0	(6,947,472)
7	89	50	(1,523,566)	(1,500,508)	0	(1,382,746)	(913,138)	(7,860,609)
8	89	51	0	23,058	23,058	0	0	(7,860,609)
9	89	52	0	23,058	46,279	0	0	(7,860,609)
10	89	53	0	23,058	69,664	0	0	(7,860,609)
11	89	54	0	23,058	93,216	0	0	(7,860,609)
12	89	55	0	23,058	116,934	0	0	(7,860,609)
1	90	56	(1,551,166)	(1,528,108)	0	(1,410,346)	(866,125)	(8,746,734)
2	90	57	0	23,058	23,058	0	0	(8,746,734)
3	90	58	0	23,058	46,279	0	0	(8,746,734)
4	90	59	0	23,058	69,664	0	0	(8,746,734)
5	90	60	0	23,058	93,216	0	0	(8,746,734)
6	90	61	0	23,058	116,934	0	0	(8,746,734)
7	90	62	(1,536,004)	(1,512,946)	0	(1,395,184)	(834,019)	(9,580,753)
8	90	63	0	23,058	23,058	0	0	(9,580,753)
9	90	64	0	23,058	46,279	0	0	(9,580,753)
10	90	65	0	23,058	69,664	0	0	(9,580,753)
11	90	66	0	23,058	93,216	0	0	(9,580,753)
12	90	67	0	23,058	116,934	0	0	(9,580,753)
1	91	68	(1,575,429)	(1,552,371)	0	(1,434,609)	(815,930)	(10,396,683)
2	91	69	0	23,058	23,058	0	0	(10,396,683)
3	91	70	0	23,058	46,279	0	0	(10,396,683)
4	91	71	0	23,058	69,664	0	0	(10,396,683)
5	91	72	0	23,058	93,216	0	0	(10,396,683)
6	91	73	0	23,058	116,934	0	0	(10,396,683)
7	91	74	(1,571,316)	(1,548,258)	0	(1,430,496)	(774,072)	(11,170,756)
8	91	75	0	23,058	23,058	0	0	(11,170,756)
9	91	76	0	23,058	46,279	0	0	(11,170,756)
10	91	77	0	23,058	69,664	0	0	(11,170,756)
11	91	78	0	23,058	93,216	0	0	(11,170,756)
12	91	79	0	23,058	116,934	0	0	(11,170,756)
1	92	80	(1,516,141)	(1,493,083)	0	(1,377,321)	(709,096)	(11,879,852)
2	92	81	0	23,058	23,058	0	0	(11,879,852)
3	92	82	0	23,058	46,279	0	0	(11,879,852)
4	92	83	0	23,058	69,664	0	0	(11,879,852)
5	92	84	0	23,058	93,216	0	0	(11,879,852)
6	92	85	0	23,058	116,934	0	0	(11,879,852)
7	92	86	(1,578,329)	(1,555,271)	0	(1,437,509)	(704,135)	(12,583,987)
8	92	87	0	23,058	23,058	0	0	(12,583,987)
9	92	88	0	23,058	46,279	0	0	(12,583,987)
10	92	89	0	23,058	69,664	0	0	(12,583,987)

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11	92	90	0	23,058	93,216	0	0	(12,583,967)
12	92	91	0	23,053	116,934	0	0	(12,583,997)
1	93	92	(1,579,204)	(1,556,146)	0	(1,428,384)	(670,341)	(13,254,328)
2	93	93	0	23,058	23,053	0	0	(13,254,328)
3	93	94	0	23,058	46,279	0	0	(13,254,328)
4	93	95	0	23,053	69,664	0	0	(13,254,328)
5	93	96	0	23,058	93,216	0	0	(13,254,328)
6	93	97	0	23,053	116,934	0	0	(13,254,328)
7	93	98	(1,582,529)	(1,559,471)	0	(1,441,709)	(639,254)	(13,893,582)
8	93	99	0	23,058	23,053	0	0	(13,893,582)
9	93	100	0	23,058	46,279	0	0	(13,893,582)
10	93	101	0	23,058	69,664	0	0	(13,893,582)
11	93	102	0	23,058	93,216	0	0	(13,893,582)
12	93	103	0	23,053	116,934	0	0	(13,893,582)
1	94	104	(1,584,054)	(1,560,996)	0	(1,443,234)	(608,847)	(14,502,428)
2	94	105	0	23,058	23,053	0	0	(14,502,428)
3	94	106	0	23,058	46,279	0	0	(14,502,428)
4	94	107	0	23,058	69,664	0	0	(14,502,428)
5	94	108	0	23,058	93,216	0	0	(14,502,428)
6	94	109	0	23,058	116,934	0	0	(14,502,428)
7	94	110	(1,588,331)	(1,565,273)	0	(1,447,511)	(580,989)	(15,083,418)
8	94	111	0	23,058	23,053	0	0	(15,083,418)
9	94	112	0	23,058	46,279	0	0	(15,083,418)
10	94	113	0	23,058	69,664	0	0	(15,083,418)
11	94	114	0	23,058	93,216	0	0	(15,083,418)
12	94	115	0	23,053	116,934	0	0	(15,083,418)
1	95	116	(1,585,561)	(1,562,503)	0	(1,444,741)	(551,711)	(15,635,129)
2	95	117	0	23,058	23,053	0	0	(15,635,129)
3	95	118	0	23,058	46,279	0	0	(15,635,129)
4	95	119	0	23,053	69,664	0	0	(15,635,129)
5	95	120	0	23,058	93,216	0	0	(15,635,129)
6	95	121	0	23,058	116,934	0	0	(15,635,129)
7	95	122	(1,580,726)	(1,557,668)	0	(1,439,906)	(523,156)	(16,158,285)
8	95	123	0	23,058	23,053	0	0	(16,158,285)
9	95	124	0	23,058	46,279	0	0	(16,158,285)
10	95	125	0	23,058	69,664	0	0	(16,158,285)
11	95	126	0	23,058	93,216	0	0	(16,158,285)
12	95	127	0	23,053	116,934	0	0	(16,158,285)
1	96	128	(1,584,061)	(1,561,003)	0	(1,443,241)	(498,897)	(16,657,182)
2	96	129	0	23,058	23,053	0	0	(16,657,182)
3	96	130	0	23,058	46,279	0	0	(16,657,182)
4	96	131	0	23,058	69,664	0	0	(16,657,182)
5	96	132	0	23,058	93,216	0	0	(16,657,182)
6	96	133	0	23,053	116,934	0	0	(16,657,182)
7	96	134	(1,604,841)	(1,581,783)	0	(1,464,021)	(481,498)	(17,138,680)
8	96	135	0	0	0	0	0	(17,138,680)
9	96	136	0	0	0	0	0	(17,138,680)
10	96	137	0	0	0	0	0	(17,138,680)
11	96	138	0	0	0	0	0	(17,138,680)
12	96	139	0	0	0	0	0	(17,138,680)
1	97	140	-1602401	(1,602,401)	0	(1,602,401)	(501,411)	(17,640,091)
2	97	141	0	0	0	0	0	(17,640,091)
3	97	142	0	0	0	0	0	(17,640,091)
4	97	143	0	0	0	0	0	(17,640,091)
5	97	144	0	0	0	0	0	(17,640,091)
6	97	145	0	0	0	0	0	(17,640,091)

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7	97	156	-1612661	(1,612,661)	0	(1,612,661)	(441,875)	(18,081,966)
9	97	147	0	0	0	0	0	(18,081,966)
9	97	148	0	0	0	0	0	(18,081,966)
10	97	149	0	0	0	0	0	(18,081,966)
11	97	150	0	0	0	0	0	(18,081,966)
12	97	151	0	0	0	0	0	(18,081,966)
1	98	152	-1609931	(1,609,931)	0	(1,609,931)	(456,016)	(18,537,982)
2	98	153	0	0	0	0	0	(18,537,982)
3	98	154	0	0	0	0	0	(18,537,982)
4	98	155	0	0	0	0	0	(18,537,982)
5	98	156	0	0	0	0	0	(18,537,982)
6	98	157	0	0	0	0	0	(18,537,982)
7	98	158	-5414344	(5,414,344)	0	(5,414,344)	(1,459,131)	(19,997,113)



DKSN001416

19-May-85

STATE POLICE PROPOSAL ANALYSIS
DABBS SULLIVAN - PROPOSAL 1:

	ANNUAL	MONTHLY
BOND PROCEEDS INVESTMENT RATE		
LESS THAN 1 YEAR	9.56%	9.71%
1 TO 5 YEARS	10.00%	0.63%
DISCOUNT INTEREST RATE	10.00%	0.63%
RESERVE FUND INTEREST RATE	10.00%	0.63%

INITIAL EQUIPMENT PAYMENT FUND: 23,000,000
 INITIAL RESERVE FUND: 2,766,933
 PRESENT VALUE NET PAYMENTS: (20,561,533)

DATE		BOND	NET	TOTAL		PRESENT	CUMULATIVE
MO	YR	NO.	PAYMENT	REVENUE	NET REVENUE WITH INTEREST	NET PAYMENT	PRESENT VALUE NET PAYMENT
6	85	1	0	204,724	204,724	0	0
7	85	2	(1,844,473)	(1,653,915)	0	(1,447,741)	(1,423,910)
8	85	3	0	190,558	190,558	0	(1,423,910)
9	85	4	0	190,558	381,116	0	(1,423,910)
10	85	5	0	190,558	571,674	0	(1,423,910)
11	85	6	0	190,558	762,232	0	(1,423,910)
12	85	7	0	190,558	952,790	0	(1,423,910)
1	86	8	(1,839,610)	(1,649,052)	0	(675,824)	(2,099,733)
2	86	9	0	190,558	190,558	0	(2,099,733)
3	86	10	0	176,391	366,949	0	(2,099,733)
4	86	11	0	176,391	543,340	0	(2,099,733)
5	86	12	0	148,058	691,398	0	(2,099,733)
6	86	13	0	148,058	839,456	0	(2,099,733)
7	86	14	(1,819,098)	(1,671,040)	0	(812,760)	(2,912,493)
8	86	15	0	114,724	114,724	0	(2,912,493)
9	86	16	0	114,724	229,448	0	(2,912,493)
10	86	17	0	114,724	344,172	0	(2,912,493)
11	86	18	0	81,391	425,563	0	(2,912,493)
12	86	19	0	81,391	506,954	0	(2,912,493)
1	87	20	(1,856,448)	(1,775,057)	0	(1,256,506)	(4,169,000)
2	87	21	0	42,224	42,224	0	(4,169,000)
3	87	22	0	42,224	84,448	0	(4,169,000)
4	87	23	0	42,224	126,672	0	(4,169,000)
5	87	24	0	42,224	168,896	0	(4,169,000)
6	87	25	0	42,224	211,120	0	(4,169,000)
7	87	26	(1,861,523)	(1,819,297)	0	(1,603,647)	(5,772,647)
8	87	27	0	42,224	42,224	0	(5,772,647)
9	87	28	0	42,224	84,448	0	(5,772,647)
10	87	29	0	42,224	126,672	0	(5,772,647)
11	87	30	0	42,224	168,896	0	(5,772,647)
12	87	31	0	42,224	211,120	0	(5,772,647)
1	88	32	(1,863,148)	(1,820,924)	0	(1,605,272)	(7,377,919)
2	88	33	0	23,053	23,053	0	(7,377,919)

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3	88	34	0	23,058	46,279	0	0	(6,367,574)
4	88	35	0	23,058	69,664	0	0	(6,367,574)
5	88	36	0	23,058	93,216	0	0	(6,367,574)
6	88	37	0	23,058	116,934	0	0	(6,367,574)
7	88	38	(1,838,460)	(1,815,402)	0	(1,697,640)	(1,238,460)	(7,606,054)
8	88	39	0	23,058	23,058	0	0	(7,606,054)
9	88	40	0	23,058	46,279	0	0	(7,606,054)
10	88	41	0	23,058	69,664	0	0	(7,606,054)
11	88	42	0	23,058	93,216	0	0	(7,606,054)
12	88	43	0	23,058	116,934	0	0	(7,606,054)
1	89	44	(1,862,229)	(1,839,171)	0	(1,721,409)	(1,194,820)	(8,800,874)
2	89	45	0	23,058	23,058	0	0	(8,800,874)
3	89	46	0	23,058	46,279	0	0	(8,800,874)
4	89	47	0	23,058	69,664	0	0	(8,800,874)
5	89	48	0	23,058	93,216	0	0	(8,800,874)
6	89	49	0	23,058	116,934	0	0	(8,800,874)
7	89	50	(1,828,673)	(1,805,615)	0	(1,687,853)	(1,114,624)	(9,915,499)
8	89	51	0	23,058	23,058	0	0	(9,915,499)
9	89	52	0	23,058	46,279	0	0	(9,915,499)
10	89	53	0	23,058	69,664	0	0	(9,915,499)
11	89	54	0	23,058	93,216	0	0	(9,915,499)
12	89	55	0	23,058	116,934	0	0	(9,915,499)
1	90	56	(1,803,673)	(1,780,615)	0	(1,662,653)	(1,044,775)	(10,960,274)
2	90	57	0	23,058	23,058	0	0	(10,960,274)
3	90	58	0	23,058	46,279	0	0	(10,960,274)
4	90	59	0	23,058	69,664	0	0	(10,960,274)
5	90	60	0	23,058	93,216	0	0	(10,960,274)
6	90	61	0	23,058	116,934	0	0	(10,960,274)
7	90	62	(1,863,073)	(1,840,015)	0	(1,722,253)	(1,029,535)	(11,989,809)
8	90	63	0	23,058	23,058	0	0	(11,989,809)
9	90	64	0	23,058	46,279	0	0	(11,989,809)
10	90	65	0	23,058	69,664	0	0	(11,989,809)
11	90	66	0	23,058	93,216	0	0	(11,989,809)
12	90	67	0	23,058	116,934	0	0	(11,989,809)
1	91	68	(1,827,079)	(1,804,021)	0	(1,686,259)	(957,056)	(12,948,865)
2	91	69	0	23,058	23,058	0	0	(12,948,865)
3	91	70	0	23,058	46,279	0	0	(12,948,865)
4	91	71	0	23,058	69,664	0	0	(12,948,865)
5	91	72	0	23,058	93,216	0	0	(12,948,865)
6	91	73	0	23,058	116,934	0	0	(12,948,865)
7	91	74	(1,865,673)	(1,842,615)	0	(1,724,853)	(933,355)	(13,882,220)
8	91	75	0	23,058	23,058	0	0	(13,882,220)
9	91	76	0	23,058	46,279	0	0	(13,882,220)
10	91	77	0	23,058	69,664	0	0	(13,882,220)
11	91	78	0	23,058	93,216	0	0	(13,882,220)
12	91	79	0	23,058	116,934	0	0	(13,882,220)
1	92	80	(1,819,248)	(1,796,190)	0	(1,678,478)	(864,112)	(14,746,338)
2	92	81	0	23,058	23,058	0	0	(14,746,338)
3	92	82	0	23,058	46,279	0	0	(14,746,338)
4	92	83	0	23,058	69,664	0	0	(14,746,338)
5	92	84	0	23,058	93,216	0	0	(14,746,338)
6	92	85	0	23,058	116,934	0	0	(14,746,338)
7	92	86	(1,807,610)	(1,784,552)	0	(1,666,790)	(816,444)	(15,562,782)
8	92	87	0	23,058	23,058	0	0	(15,562,782)
9	92	88	0	23,058	46,279	0	0	(15,562,782)
10	92	89	0	23,058	69,664	0	0	(15,562,782)

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11	92	90	0	23,058	93,216	0	0	(15,562,761)
12	92	91	0	23,058	116,934	0	0	(15,562,781)
1	93	92	(1,612,704)	(1,789,646)	0	(1,671,684)	(779,160)	(16,341,941)
2	93	93	0	23,058	23,058	0	0	(16,341,941)
3	93	94	0	23,058	46,279	0	0	(16,341,941)
4	93	95	0	23,058	69,664	0	0	(16,341,941)
5	93	96	0	23,058	93,216	0	0	(16,341,941)
6	93	97	0	23,058	116,934	0	0	(16,341,941)
7	93	98	(1,615,173)	(1,792,115)	0	(1,674,353)	(742,406)	(17,084,351)
8	93	99	0	23,058	23,058	0	0	(17,084,351)
9	93	100	0	23,058	46,279	0	0	(17,084,351)
10	93	101	0	23,058	69,664	0	0	(17,084,351)
11	93	102	0	23,058	93,216	0	0	(17,084,351)
12	93	103	0	23,058	116,934	0	0	(17,084,351)
1	94	104	(1,813,298)	(1,790,240)	0	(1,672,478)	(705,556)	(17,789,901)
2	94	105	0	23,058	23,058	0	0	(17,789,901)
3	94	106	0	23,058	46,279	0	0	(17,789,901)
4	94	107	0	23,058	69,664	0	0	(17,789,901)
5	94	108	0	23,058	93,216	0	0	(17,789,901)
6	94	109	0	23,058	116,934	0	0	(17,789,901)
7	94	110	(1,808,723)	(1,785,665)	0	(1,667,903)	(669,448)	(18,459,351)
8	94	111	0	23,058	23,058	0	0	(18,459,351)
9	94	112	0	23,058	46,279	0	0	(18,459,351)
10	94	113	0	23,058	69,664	0	0	(18,459,351)
11	94	114	0	23,058	93,216	0	0	(18,459,351)
12	94	115	0	23,058	116,934	0	0	(18,459,351)
1	95	116	(5,645,700)	(5,622,642)	0	(5,504,880)	(2,102,178)	(20,561,531)

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STATE POLICE PROPOSAL ANALYSIS
FIRST CAPITAL RESOURCES CORPORATION

BOND PROCEEDS INVESTMENT RATE	ANNUAL	MONTHLY
LESS THAN 1 YEAR	8.50%	0.71%
1 TO 5 YEARS	10.00%	0.83%
DISCOUNT INTEREST RATE	10.00%	0.83%
RESERVE FUND INTEREST RATE	10.00%	0.83%
INITIAL EQUIPMENT PAYMENT FUND:	23,000,000	
INITIAL RESERVE FUND:	0	
PRESENT VALUE NET PAYMENTS:	(18,073,030)	

DATE			TOTAL NET REVENUE WITH INTEREST			PRESENT VALUE NET PAYMENT		CUMULATIVE PRESENT VALUE NET PAYMENT
MO	YR	NO.	BOND PAYMENT	NET REVENUE		NET PAYMENT		
6	85	1	(273,900)	(92,233)	0	(92,233)	(91,471)	(91,471)
7	85	2	(273,900)	(106,400)	0	(106,400)	(106,469)	(196,120)
8	85	3	(273,900)	(106,400)	0	(106,400)	(103,784)	(299,903)
9	85	4	(273,900)	(106,400)	0	(106,400)	(102,926)	(402,829)
10	85	5	(273,900)	(106,400)	0	(106,400)	(102,075)	(504,905)
11	85	6	(273,900)	(106,400)	0	(106,400)	(101,232)	(606,137)
12	85	7	(273,900)	(106,400)	0	(106,400)	(100,395)	(706,532)
1	86	8	(273,900)	(106,400)	0	(106,400)	(99,565)	(806,097)
2	86	9	(273,900)	(106,400)	0	(106,400)	(98,743)	(904,840)
3	86	10	(273,900)	(120,567)	0	(120,567)	(110,965)	(1,015,805)
4	86	11	(273,900)	(120,567)	0	(120,567)	(110,048)	(1,125,853)
5	86	12	(273,900)	(148,900)	0	(148,900)	(134,786)	(1,260,639)
6	86	13	(273,900)	(148,900)	0	(148,900)	(133,672)	(1,394,311)
7	86	14	(273,900)	(148,900)	0	(148,900)	(132,567)	(1,526,878)
8	86	15	(273,900)	(182,233)	0	(182,233)	(168,904)	(1,687,762)
9	86	16	(273,900)	(182,233)	0	(182,233)	(159,574)	(1,847,356)
10	86	17	(273,900)	(182,233)	0	(182,233)	(158,255)	(2,005,611)
11	86	18	(273,900)	(215,567)	0	(215,567)	(185,655)	(2,191,266)
12	86	19	(273,900)	(215,567)	0	(215,567)	(184,121)	(2,373,357)
1	87	20	(273,900)	(215,567)	0	(215,567)	(182,599)	(2,557,987)
2	87	21	(273,900)	(254,733)	0	(254,733)	(213,993)	(2,771,650)
3	87	22	(273,900)	(254,733)	0	(254,733)	(212,224)	(2,984,204)
4	87	23	(273,900)	(254,733)	0	(254,733)	(210,470)	(3,194,674)
5	87	24	(273,900)	(254,733)	0	(254,733)	(208,731)	(3,403,405)
6	87	25	(273,900)	(254,733)	0	(254,733)	(207,006)	(3,610,411)
7	87	26	(273,900)	(254,733)	0	(254,733)	(205,295)	(3,815,706)
8	87	27	(273,900)	(254,733)	0	(254,733)	(203,598)	(4,019,304)
9	87	28	(273,900)	(254,733)	0	(254,733)	(201,916)	(4,221,220)
10	87	29	(273,900)	(254,733)	0	(254,733)	(200,247)	(4,421,467)
11	87	30	(273,900)	(254,733)	0	(254,733)	(198,592)	(4,620,059)
12	87	31	(273,900)	(254,733)	0	(254,733)	(196,951)	(4,817,010)
1	88	32	(273,900)	(254,733)	0	(254,733)	(195,323)	(5,012,334)

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2	88	33	(273,900)	(273,900)	0	(273,900)	(208,284)	(5,220,616)
3	88	34	(273,900)	(273,900)	0	(273,900)	(206,563)	(5,427,180)
4	88	35	(273,900)	(273,900)	0	(273,900)	(204,856)	(5,632,036)
5	88	36	(273,900)	(273,900)	0	(273,900)	(203,163)	(5,835,198)
6	88	37	(273,900)	(273,900)	0	(273,900)	(201,483)	(6,036,682)
7	88	38	(273,900)	(273,900)	0	(273,900)	(199,818)	(6,236,580)
8	88	39	(273,900)	(273,900)	0	(273,900)	(198,167)	(6,434,667)
9	88	40	(273,900)	(273,900)	0	(273,900)	(196,529)	(6,631,196)
10	88	41	(273,900)	(273,900)	0	(273,900)	(194,905)	(6,826,101)
11	88	42	(273,900)	(273,900)	0	(273,900)	(193,294)	(7,019,395)
12	88	43	(273,900)	(273,900)	0	(273,900)	(191,697)	(7,211,092)
1	89	44	(273,900)	(273,900)	0	(273,900)	(190,112)	(7,401,206)
2	89	45	(273,900)	(273,900)	0	(273,900)	(188,541)	(7,589,746)
3	89	46	(273,900)	(273,900)	0	(273,900)	(186,983)	(7,776,729)
4	89	47	(273,900)	(273,900)	0	(273,900)	(185,438)	(7,962,167)
5	89	48	(273,900)	(273,900)	0	(273,900)	(183,905)	(8,146,072)
6	89	49	(273,900)	(273,900)	0	(273,900)	(182,385)	(8,328,457)
7	89	50	(273,900)	(273,900)	0	(273,900)	(180,878)	(8,509,335)
8	89	51	(273,900)	(273,900)	0	(273,900)	(179,383)	(8,688,718)
9	89	52	(273,900)	(273,900)	0	(273,900)	(177,901)	(8,866,619)
10	89	53	(273,900)	(273,900)	0	(273,900)	(176,430)	(9,043,049)
11	89	54	(273,900)	(273,900)	0	(273,900)	(174,972)	(9,218,022)
12	89	55	(273,900)	(273,900)	0	(273,900)	(173,526)	(9,391,548)
1	90	56	(273,900)	(273,900)	0	(273,900)	(172,092)	(9,563,640)
2	90	57	(273,900)	(273,900)	0	(273,900)	(170,670)	(9,734,310)
3	90	58	(273,900)	(273,900)	0	(273,900)	(169,259)	(9,903,569)
4	90	59	(273,900)	(273,900)	0	(273,900)	(167,861)	(10,071,430)
5	90	60	(273,900)	(273,900)	0	(273,900)	(166,473)	(10,237,903)
6	90	61	(273,900)	(273,900)	0	(273,900)	(165,097)	(10,403,001)
7	90	62	(273,900)	(273,900)	0	(273,900)	(163,733)	(10,566,734)
8	90	63	(273,900)	(273,900)	0	(273,900)	(162,380)	(10,729,116)
9	90	64	(273,900)	(273,900)	0	(273,900)	(161,038)	(10,890,152)
10	90	65	(273,900)	(273,900)	0	(273,900)	(159,707)	(11,049,659)
11	90	66	(273,900)	(273,900)	0	(273,900)	(158,387)	(11,208,246)
12	90	67	(273,900)	(273,900)	0	(273,900)	(157,078)	(11,365,324)
1	91	68	(273,900)	(273,900)	0	(273,900)	(155,780)	(11,521,104)
2	91	69	(273,900)	(273,900)	0	(273,900)	(154,493)	(11,675,576)
3	91	70	(273,900)	(273,900)	0	(273,900)	(153,216)	(11,828,812)
4	91	71	(273,900)	(273,900)	0	(273,900)	(151,949)	(11,980,762)
5	91	72	(273,900)	(273,900)	0	(273,900)	(150,694)	(12,131,455)
6	91	73	(273,900)	(273,900)	0	(273,900)	(149,448)	(12,280,904)
7	91	74	(273,900)	(273,900)	0	(273,900)	(148,213)	(12,429,117)
8	91	75	(273,900)	(273,900)	0	(273,900)	(146,988)	(12,576,105)
9	91	76	(273,900)	(273,900)	0	(273,900)	(145,774)	(12,721,879)
10	91	77	(273,900)	(273,900)	0	(273,900)	(144,569)	(12,866,447)
11	91	78	(273,900)	(273,900)	0	(273,900)	(143,374)	(13,009,821)
12	91	79	(273,900)	(273,900)	0	(273,900)	(142,189)	(13,152,010)
1	92	80	(273,900)	(273,900)	0	(273,900)	(141,014)	(13,293,024)
2	92	81	(273,900)	(273,900)	0	(273,900)	(139,849)	(13,432,873)
3	92	82	(273,900)	(273,900)	0	(273,900)	(138,693)	(13,571,566)
4	92	83	(273,900)	(273,900)	0	(273,900)	(137,547)	(13,709,112)
5	92	84	(273,900)	(273,900)	0	(273,900)	(136,410)	(13,845,522)
6	92	85	(273,900)	(273,900)	0	(273,900)	(135,282)	(13,980,604)
7	92	86	(273,900)	(273,900)	0	(273,900)	(134,164)	(14,114,969)
8	92	87	(273,900)	(273,900)	0	(273,900)	(133,056)	(14,248,024)

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9	92	88	(273,900)	(273,900)	0	(273,900)	(131,956)(14,379,960)
10	92	89	(273,900)	(273,900)	0	(273,900)	(130,865)(14,510,846)
11	92	90	(273,900)	(273,900)	0	(273,900)	(129,784)(14,640,630)
12	92	91	(273,900)	(273,900)	0	(273,900)	(128,711)(14,769,361)
1	93	92	(273,900)	(273,900)	0	(273,900)	(127,648)(14,896,099)
2	93	93	(273,900)	(273,900)	0	(273,900)	(126,593)(15,023,581)
3	93	94	(273,900)	(273,900)	0	(273,900)	(125,546)(15,149,128)
4	93	95	(273,900)	(273,900)	0	(273,900)	(124,509)(15,273,637)
5	93	96	(273,900)	(273,900)	0	(273,900)	(123,480)(15,397,116)
6	93	97	(273,900)	(273,900)	0	(273,900)	(122,459)(15,519,576)
7	93	98	(273,900)	(273,900)	0	(273,900)	(121,447)(15,641,023)
8	93	99	(273,900)	(273,900)	0	(273,900)	(120,444)(15,761,457)
9	93	100	(273,900)	(273,900)	0	(273,900)	(119,448)(15,880,915)
10	93	101	(273,900)	(273,900)	0	(273,900)	(118,461)(15,999,376)
11	93	102	(273,900)	(273,900)	0	(273,900)	(117,482)(16,116,858)
12	93	103	(273,900)	(273,900)	0	(273,900)	(116,511)(16,233,369)
1	94	104	(273,900)	(273,900)	0	(273,900)	(115,548)(16,348,917)
2	94	105	(273,900)	(273,900)	0	(273,900)	(114,593)(16,463,510)
3	94	106	(273,900)	(273,900)	0	(273,900)	(113,646)(16,577,157)
4	94	107	(273,900)	(273,900)	0	(273,900)	(112,707)(16,689,864)
5	94	108	(273,900)	(273,900)	0	(273,900)	(111,775)(16,801,639)
6	94	109	(273,900)	(273,900)	0	(273,900)	(110,852)(16,912,491)
7	94	110	(273,900)	(273,900)	0	(273,900)	(109,936)(17,022,426)
8	94	111	(273,900)	(273,900)	0	(273,900)	(109,027)(17,131,453)
9	94	112	(273,900)	(273,900)	0	(273,900)	(108,126)(17,239,577)
10	94	113	(273,900)	(273,900)	0	(273,900)	(107,232)(17,346,612)
11	94	114	(273,900)	(273,900)	0	(273,900)	(106,346)(17,453,158)
12	94	115	(273,900)	(273,900)	0	(273,900)	(105,467)(17,559,675)
1	95	116	(273,900)	(273,900)	0	(273,900)	(104,596)(17,663,221)
2	95	117	(273,900)	(273,900)	0	(273,900)	(103,731)(17,766,952)
3	95	118	(273,900)	(273,900)	0	(273,900)	(102,874)(17,869,826)
4	95	119	(273,900)	(273,900)	0	(273,900)	(102,024)(17,971,850)
5	95	120	(273,900)	(273,900)	0	(273,900)	(101,181)(18,073,030)

DKSN001422

MINUTES OF ARKANSAS STATE POLICE COMMISSION MEETING

MAY 10, 1985

A special meeting of the Arkansas State Police Commission was held on May 10, 1985 in the Board Room of Arkansas State Police Administrative Headquarters, 3 Natural Resources Drive, Little Rock.

The meeting had been called to hear oral proposals from the four financial firms that had been selected by the Financial Screening Committee for consideration by the Commission to handle financing for the Arkansas State Police Communications System.

The meeting was called to order at 1:35 p.m. by Commission Chairman Bill Simpson.

MEMBERS PRESENT:

Bill Simpson, Chairman
James D. Mashburn, Vice Chairman
Winthrop Paul Rockefeller, Secretary
Chester Hynes
Johnny Mitchum
Gene Raff
James M. Tennyson

STATE POLICE PERSONNEL ATTENDING:

Colonel T. L. Goodwin
Major Jim Tyler
Lieutenant John Chambers
Sergeant Bill Young
Corporal Van Dyer
Mr. David Moseley

OTHERS ATTENDING:

Mr. Ed Erxleben, State Purchasing Office
Mr. Dudley Meadows, State Purchasing Office
Mr. Mike Stormes, State Budget Office

The Chairman confirmed that the press had been officially notified.

MINUTES OF FINANCIAL SCREENING COMMITTEE:

Major Tyler read the Minutes of a meeting of the Financial Screening Committee held on May 7, 1985. The Committee had selected four financial firms to present oral proposals to the Commission. The firms are:

Dabbs Sullivan
First Capital Resources
A Joint Proposal from T. J. Raney, E. F. Hutton and
Lasater and Company
Stephens, Inc.

Commissioner Hynes moved that the Minutes be accepted. Commissioner Tennyson seconded. Motion carried unanimously.

Commissioner Simpson expressed appreciation to the Screening Committee for the time and effort they had expended.

DKSN001392

MINUTES OF ARKANSAS STATE POLICE COMMISSION MEETING
MAY 10, 1985 - PAGE 2

PRESENTATION OF PROPOSALS:

Commissioner Simpson announced the order of presentation for the oral proposals and stated that the order had been determined by a drawing. He also informed the participants that their proposal would be limited to 30 minutes with 15 minutes allotted for questions and answers after each proposal. He requested that only representatives of the firm presenting the proposal be in the room during time of presentation.

The order of presentation was as follows:

1. Dabbs Sullivan
2. Stephens, Inc.
3. First Capital Resources
4. T. J. Raney, E. F. Hutton, Lasater and Company

During the presentation of Raney, Hutton and Lasater, they were questioned concerning the federal charges of fraud against the Hutton firm. Mr. Steve Claiborn, a senior vice president and manager of Hutton's Houston, Texas Public Finance Division, told the Commission that the practices which resulted in the charges occurred three years ago and were stopped immediately when discovered. He said steps had been taken to ensure that it would not recur. All banks involved received full restitution plus interest. It did not involve clients' money and the Public Finance Division was not involved. He stated that the company's reputation had not been damaged by the publicity and told of two large bond issues in which they had recently been involved. When questioned as to whether the fines and restitutions had damaged the company's financial base, Claiborn noted that the fines and penalties were \$2.7 million and \$8 million had been allotted for restitution payments, and this totals less than one percent of the company's \$1 billion capital base.

After all proposals were presented, the Commission entered into a discussion of the proposals with representatives of all firms present.

Commissioner Johnny Mitchum had prepared a brief summary and comparison of the four proposals and distributed copies to the Commission. His conclusion was that they must accept the best concept or format rather than the costs outlined, and that Raney, Hutton, Lasater offered the best plan.

Some of the firms at this time requested permission to revise their proposals as they felt there had been some misunderstanding of the Act. However, the Commission opposed any further delay.

At this time, Commissioner Johnny Mitchum moved that Raney, Hutton and Lasater be approved to handle the financing for the Communications System. Commissioner Chester Hynes seconded the motion. Motion carried by a four to two vote, with Commissioners Mitchum, Hynes, Tennyson, and Rockefeller voting "aye" and Commissioners Raff and Mashburn voting "no."

The Commission's selection will now be submitted to the Communications Study Committee and the Legislative Council.

Mr. Moseley was requested to write a letter expressing appreciation to all firms that submitted a proposal.

MINUTES OF ARKANSAS STATE POLICE COMMISSION MEETING
MAY 10, 1985 - PAGE 3

NEXT MEETING:

~~The regular Commission meeting scheduled for May 24, 1985~~
will not be held. The hearing for Trooper James Blueford has been
cancelled.

The next regular meeting and a hearing for Trooper James Brownlee
will be held on June 20, 1985.

ADJOURNMENT:

The meeting was adjourned at 4:15 p.m., May 10, 1985.

Bill Simpson, Chairman

Winthrop Paul Rockefeller, Secretary

DKSN001394

MINUTES

COMMUNICATIONS STUDY COMMITTEE

July 10, 1985

The meeting was called to order by Senator Knox Nelson, Chairman. Present were Senators Howell, Nelson, Moore; Representatives John E. Miller, George, and Wood. Members of the Technical Advisory Committee present were Bud Austin, James Gladden and Bob Thomason.

A letter from John Kennedy, Director of the Department of Computer Services, responding to the committee's request for information on the financial impact to agencies in the State Capitol of purchasing the internal telephone wiring, was filed by the committee.

A letter from John Kennedy, Director of the Department of Computer Services, regarding the Committee's request for information on the new telephone system for the Governor's office was filed.

A letter and a report from John Kennedy, Director of the Department of Computer Services, requesting the committee's advice on acquiring an uninterruptible power supply for the Department of Computer Services and ESD computer centers in the MAC Building was considered by the committee. Representative George asked if they had standby power. Mr. Kennedy said they have a diesel generator but not an uninterrupted power supply. Mr. Thomason said that it could take eight hours to recover the damage from a millisecond loss of power. Representative Miller made a motion that the Department go ahead with the bidding process. Senator Howell added that they should coordinate with State Purchasing. Motion passed.

Senator Nelson expressed his appreciation for the presence of the Technical Advisory Committee and for their help. He asked them to offer suggestions for someone to fill the vacancy on the subcommittee.

Colonel Goodwin of the State Police was recognized. He introduced Ms. Ann Richey of the Mitchell, Williams, Selig, Jackson & Tucker law firm to explain the role of the firm regarding the bond contract. Senator Nelson asked Mr. Erxleben of the State Purchasing Office if he had reviewed the contract. He said his office had worked out some recommended changes with the law firm. Senator Howell asked if the Mitchell firm represented the state or the bond company. Mr. Erxleben said that there were three parties which had to work together - the law firm, the bonding company and an independent trustee. Senator Howell said he wanted to be sure there is an adversarial protective concern for the taxpayers. Mr. Erxleben said it was a well coordinated and reviewed contract. Any questions were referred to the Attorney General. To the best of their ability and knowledge, the taxpayers were protected. Senator Howell asked Ms. Richey to explain their relationship to the taxpayer and what responsibilities the law firm had. Ms. Richey said they had the responsibility to make sure the bonds are validly and legally issued to protect the state and the investors. They are responsible to make sure that the bonds comply with federal tax laws so that they are tax exempt for investors. This is a strong public purpose type of financing.

Senator Howell made a motion to approve the contract. Motion passed.

DKSN0272-

Testimony links cocaine use, lawmakers' offspring at trial

BY DOUG THOMPSON (AP Wire Service)

Hot Springs resident, also testified, he bought cocaine from Anderson once. Mrs. Dierti testified, however, that people were provided with cocaine nine times in the two weeks before Christmas 1983. She also testified Anderson arranged for her to buy 2 grams of cocaine from Rodriguez at Anderson's home in 1980.

Curtis Berry, chauffeur for Lanier, said that he bought cocaine from Anderson several times during the 1983 and 1984 horse racing season in Hot Springs for \$125 a gram. In cross-examination, Clardy pointed out that Berry was convicted of second-degree murder in Pulaski County in 1983.

The deal was apparently made on the night of June 20, 1983, when Rodriguez was buying him about \$2,000 worth of cocaine. Rodriguez said he was a cocaine addict and had been sent to the Federal House of Corrections in Shreveport, La., where Clinton was living at the time. Miss Sweetman was Clinton's girlfriend.

Meyers purchased 1 gram of cocaine from Clinton for \$150, according to the tape. Clinton said on the tape that he had purchased the cocaine from Anderson.

Condominium offer

On tape, Meyers was also heard to offer Clinton a share in the profits of a proposed condominium project if Clinton could persuade his brother, Gov. Bill Clinton, to lift a building ban on condominiums in the Hot Springs area. Anderson also would have profited from the project.

of the drug originated. Rodriguez also said that several state charges against him and charges pending against his brother, Antonio, were dropped in return for his guilty plea and his cooperation.

Prosecutors played audio tapes of an alleged drug transaction involving Anderson, Clinton, and Rodney Meyers, a state police informer.

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Parkerson and Mrs. Dierti also testified. Parkerson said he paid between \$100 and \$120 each for several grams of cocaine. Parkerson said he purchased a total of 6 1/2 grams of the drug from Anderson.

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Clinton by Lane-Crews, an Arkansas resident who was studying drama in New York and who was living with Rodriguez.

"At first I gave him cocaine on credit after I learned who his brother was," Rodriguez testified. He described Clinton as a "business partner" in drug trafficking.

The relationship between Rodriguez and Clinton ended when Clinton had 9 ounces of cocaine stolen from him. Rodriguez testified Rodriguez said that he forwarded the cocaine to Clinton, expecting payment.

Clinton, expecting payment, Rodriguez said. After that, Rodriguez said, he sold cocaine directly to Anderson.

New York trip

Rodriguez first met Anderson through Clinton. Rodriguez testified that he stayed at Anderson's home in April 1983. At that time, Rodriguez testified, Anderson asked him to obtain 4 ounces of cocaine.

Rodriguez said that he returned to New York, obtained the 4 ounces of cocaine, returned to Arkansas and sold the drug to Anderson on June 17 for \$2,000 cash, all in \$100 bills.

In cross-examination by defense attorney Floyd Clardy of Bryant, Rodriguez refused under the protection of the Fifth Amendment to give any indication of where his supply

was using cocaine twice a week times a week while we were dating," Miss Canada said. She estimated Anderson provided her with cocaine 48 times in six months.

Anderson sold cocaine to a Paylis Lucas in October 1983. Lucas allegedly sold it to Anderson. Lucas told the jury, Anderson allegedly sold it to Lucas one gram of cocaine at \$100 for \$100 to \$110. Ms. Lucas paid by check. Miss Canada said.

In November 1983, Miss Canada said, Anderson sold 4 or 5 grams of cocaine to Steve Parkerson, a Hot Springs resident and employee of Oaklawn race track. This alleged transaction also supposedly took place in Anderson's home.

Finally, Miss Canada testified, young Clinton provided cocaine for a Christmas party at Anderson's home, some of the guests going into the bedroom and the wine cellar to use the drug. Miss Canada mentioned that LyAnne Di-eters, Johnny Burnett and Kim Sweetman were at the party and apparently used cocaine.

Miss Canada also testified that Dan Lanier, an Arkansas dealer who owns a race horse farm in Florida and who once gave young Clinton \$2,000 to help settle drug debts, also used cocaine.

Rodriguez, a resident alien who moved to New York City with his parents from Bogota, Colombia, when he was 3 years old, testified he supplied young Clinton with cocaine. Rodriguez was introduced to

Miss Canada testified the bad grown accustomed to cocaine while she stated her son from June to December.



Maurice Rodriguez

Sam Anderson Jr.

DKSN017636

M E M O R A N D U M

TO: SERGEANT DARRELL STAYTON
FROM: INVESTIGATOR DON BIRDSONG *DB*
REF: CONGRESSIONAL SUBPOENA
DATE: APRIL 22, 1996

In reference to the U.S. Congressional Subpoena dated April 19, 1996, for any criminal investigation concerning Danny Ray Lasater, prior to July 19, 1985, the following information is provided.

There are two investigative files noted with the name Danny Ray Lasater. An investigative file identified as case number 58-689-86 which was actually opened in 1986 by Investigator Doc Delaughter. Our records reflect the original case file was given to the U.S. Attorney's office and for some reason, we did not retain a copy of the file. A memorandum from Pat Ward, CID File Room Manager, is attached, which details the information on this file. The second file, A/O 16-750 reflects that St. Petersburg, Florida PD requested subscriber information on phone numbers, one of which listed to Andy's of America, Inc. which Dan Lasater was President. A copy of this file has been provide to you per the subpoena request.

If you have any questions please contact me.

OFFICE OF THE GOVERNOR



MEMORANDUM

To: Governor Clinton / Betty Wright Date: 5/1/85From: Mike PinnerSubject: ASP Communications① Leaster should be toldbut must be price② Katols let on induct
when help he develop no thing
This equipment for cheaper
equipment - but cost

The State Police Commission is meeting Friday to review proposals for financing the communications system. The following are Tommy Goodwin's observations of where things stand:

Should brief him on what
he wants to do

Billy Simpson - appears to have switched his support from another vendor to Dan Leaster.

Johnny Mitchem - solidly behind Leaster.

Tennison - Leaster

Mackburn - probably Leaster, since McElroy's bid did not submit proposal

Gene Ruff - probably Leaster

Rockefeller - ?

DKSN027162

Now - we have real problem
here since street talk is that
Leaster just in emergency
has been been out of the
city. I have ASP has great
equipment etc. how can we

Lasater & Company

INVESTMENT BANKERS

TO: Dan Lasater, George Locke, Dan Moudy
 FROM: Michael Drake *MD*
 DATE: April 30, 1985
 SUBJECT: State Police Communications Financing

The State Police Commission will meet Friday, May 3, 1985 to narrow finalists for the referenced financing. In an effort to familiarize you with the salient aspects of the deal and, more specifically, our proposal, I am providing the following information:

Since the proposals were submitted well in advance of a financing date, it is unlikely that the evaluation team will seriously consider rates. However, in the event they do, I have attached an offering which came to market April 30, 1985 for comparison. The deal was insured (identical to ours), contained the same rates and was well received in the market. Thus, any claims that we low-balled the proposal are unfounded.

How to Explain our Position

I recommend we promote our proposal by suggesting that Commissioners view the selection process as having four distinct parts:

I. Origination II. Structuring III. Marketing IV. Overall Cost
 + + +

I. Origination: Our team recognized the need for legislation last fall and worked closely with the Governor's office to lobby for Administration support. Lawyers on our team and Lasater & Company investment bankers drafted the legislation permitting the financing, lobbied for its passage in the House and Senate and aided the State Police Administration in designing a bill which reflected their needs.

II. Structuring: Lasater & Company has structured its proposal to provide the Arkansas State Police with limited liability (in the form of a revenue obligation rather than a general obligation),

112 Louisiana Street • Little Rock, Arkansas 72201 • 501/376-0069
 National Wats 1-800-643-8072 • Arkansas Wats 1-800-482-8496

• Corporate Plaza, Pechhouse Dr • 110 E. Broward Blvd. • Ft. Lauderdale, Florida 33301 • 305/467-3088
 National Wats 1-800-327-6211 • Florida Wats 1-800-432-9711

NASD Member Firm and Member Securities Investor Protection Corporation

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State Police Communications Financing
April 30, 1985

provide for maximum earnings through aggressive arbitrage earnings (one year debt service reserve earnings versus six mos by our competition) and have structured the legislation to place the State Police Commission in control of the transaction.

III. Marketing: Lasater, Raney and Hutton have a combined marketing ability second to none in the Southwest. Distribution of securities outside the State is of primary concern in our effort to import capital to Arkansas. No other serious contender for this financing can match our network of marketing strength.

IV. Overall Cost: Our proposal presented the most aggressive of all submitted with an overall cost of funds under 5.0%. Thus, regardless of what our competitors might suggest, our overall proposal cost is significant as it reflects our commitment to Arkansas and its taxpayers.

DEBT SERVICE SCHEDULE

Period Ending	Principal	Rate	Interest	Scheduled Debt Service	DSRF & Income	Net Debt Service	106 DSE
12/1/85			876,215	876,215	207,404	668,811	
6/1/86	920,000	5.00	876,215	1,796,215	207,404	1,588,811	31,69,622
12/1/86	935,000	5.00	853,215	1,788,215	207,404	1,580,811	207,404
6/1/87	965,000	5.50	829,840	1,794,840	207,404	1,587,436	
12/1/87	985,000	5.50	803,302	1,788,302	207,404	1,580,898	3,377,026
6/1/88	1,020,000	6.00	776,215	1,796,215	207,404	1,588,811	
12/1/88	1,045,000	6.00	745,615	1,790,615	207,404	1,583,211	
6/1/89	1,075,000	6.50	714,265	1,789,265	207,404	1,581,861	
12/1/89	1,115,000	6.50	679,328	1,794,327	207,404	1,586,923	
6/1/90	1,150,000	7.00	643,090	1,793,090	207,404	1,585,686	
12/1/90	1,185,000	7.00	602,840	1,787,840	207,404	1,580,436	
6/1/91	1,235,000	7.25	561,365	1,796,365	207,404	1,588,961	
12/1/91	1,275,000	7.25	516,596	1,791,596	207,404	1,584,193	
6/1/92	1,320,000	7.50	470,377	1,790,377	207,404	1,582,973	
12/1/92	1,370,000	7.50	420,878	1,790,877	207,404	1,583,473	
6/1/93	1,420,000	7.70	369,503	1,789,502	207,404	1,582,098	
12/1/93	1,480,000	7.70	314,832	1,794,832	207,404	1,587,428	
6/1/94	1,535,000	7.85	257,852	1,792,852	879,302	1,585,449	
12/1/94	1,595,000	7.85	197,603	1,792,603	957,403	835,200	1,209,200
6/1/95	1,655,000	8.00	135,000	1,790,000	1,718,202	---	
12/1/95	1,720,000	8.00	68,800	1,788,800	1,788,800	---	
Totals	\$25,000,000		\$11,712,948	\$36,712,948		\$28,443,472	28,817,472

EFFECTIVE COST OF BORROWING:

(4.4%)

4.6%

Sullivan ME

TC: File

FROM: John Mitchell

DATE: April 3, 1985

SUBJECT: Madison Guaranty S&LA ("Madison")
 Little Rock, Arkansas
 FHLBB No. 7601

At the request of Madison's management, a meeting was held today at 1:00 p.m. in the Pueblo Room, FHLB of Dallas. Attending were: John Latham, CEO; Greg Young, CFO; Sarah Worsham-Hawkins, Sr. V.P.; Jim Smith, Supervisory Agent; John Mitchell, Supervisory Analyst; Anna Mullican, Supervisory Analyst; and Jim Boggs, Supervisory Analyst. The purpose of the meeting was for Madison's management to become acquainted with regulatory personnel and to discuss the business plan previously submitted by Madison.

The SA indicated general satisfaction with Madison's business plan as well as corrections and improvements following the last examination report except that the rapid growth has not been accompanied by proportionate increases in Net Worth. Madison's business plan reflects projected total assets at December 31, 1985 of \$100 million which would be 108 percent annual growth over the fiscal year. Projected net worth is \$1.5 million which is only 1.5 percent of total assets and insufficient to meet the minimum net worth requirement. The institution has grown at an annualized rate of 192 percent through the first two months of 1985. The SA advised that, without adequate net worth, the growth would have to be curtailed. Ms. Hawkins stated that, under the new regulation, the estimated net worth requirement at March 31 would be \$1.12 million, and net worth would be about \$300,000 short of meeting that requirement. The association plans to issue \$600,000 of preferred stock for which a buyer is awaiting issuance, and a second issue of an unknown amount will follow shortly thereafter. The business plan projects total assets at \$148 million at December 31, 1987, and management professes concern for its net worth position and an intent to meet all regulatory requirements.

A discussion was had regarding Madison's service corporation development projects, with which we have a reasonable comfort level. The service corporation, Madison Financial Corporation, is run by Jim McDougal, who owns 84 percent of Madison. Development has involved purchase of relatively cheap raw land and development into lots or tracts (1-5 acre) suitable for building. Madison has financed lot sales, but has not become involved in any commercial construction loans incident to any developments. The projects are:

- (1) Maple Creek - A highly successful residential development just southeast of Little Rock. Initial phases are sold out, with later phases over 70 percent sold.
- (2) Cold Mine Springs - A development in rural north central Arkansas. Within the last two weeks, this project is almost sold out; what has not been sold will be sold to a limited partnership.

032901

1013026

Memo to File
 April 4, 1985
 Page 2

- (3) Green Tree Farms and Fair Oaks - two projects of 50-55 tracts of 1-5 acres each in Camden, Arkansas. Green Tree Farms is completely sold, and Fair Oaks is over 70 percent sold in 4 months.
- (4) Campobello Island - A residential tract development in Nova Scotia. Sales have at least equalled Madison's investment in this project. Madison has only a one-fourth interest in this project by virtue of its one-half interest in a joint venture comprised of two limited partnerships. After the return of investment, some 3400 acres remain which can be developed. Madison is not obligated to be a lender or participant in further development, though it may choose to later participate. One acre tracts have been developed for summer homes, with plans by the joint venturers to later build a hotel, marina, etc.

The SA advised that Madison's growth, investment strategy and net worth compliance would be monitored closely. Though the institution was profitable (\$104,000) in 1984 and shows a \$128,400 profit for the first 2 months of fiscal year 1985, the SA advised that growth would have to be accompanied by adequate capital.

JHM:mm

bcc: ADRO/OES
 DD/OES
 State

Document Name: 3420

032902

MEMORANDUM

34

April 18, 1985

TO: John Lathan
 FROM: Jim McDougal

I want this preferred stock matter cleared up immediately as I need to go to Washington to sell stock.

JM/ss

WHILE YOU WERE AWAY

J McD		DATE 4-18-85	TIME 1:48
Gentry Hyde			
376-0069		TELEPHONED	
MESSAGE: Concerning Profit		RETURNED YOUR CALL	
Dinnie Davis		PLEASE CALL	
Take profit if you		WILL CALL AGAIN	
If possible		WANT TO SEE YOU	
J McD		FORM 100-3	

| NC 0000263 |

MEMORANDUM

April 10, 1938

TO: State Finance

FROM: Davis Pittman

RE: Statutes on Issuance of Preferred Stock

1. 67-858 - Irrespective of any limitations in this act, Savings and Loan Boards may adopt rules and regulations authorizing an association to (a) adopt any business practice procedure..... authorized for a Federal Association to do in this state.

Rules and regulations of the savings and loan association Part III 1(c) specifically give an association the right to "adopt any business practice, procedure, method or system authorized for a Federal Association doing business in this state."

Title 12 Code of Federal Regulations § 552.3, § 552.4 Section 5 capital stock give Federal Associations the right to utilize the business practice and procedure of issuing preferred stock.

It therefore, follows that per 67-858 and the savings and loan board adopting Part III 1(c) that state associations have the right to issue preferred stock.

2. 67-816 - States that "the by-laws of each association shall describe the several kinds or classes of shares, stock, or certificates which it may issue; this clearly indicates there may be more than one class of stock".

67-822 - Calling in Shares. "Any building and loan association in its bylaws may reserve the right and power to require at any time any holder or holders of any or all classes of shares, stock or certificates issued by it, except Guaranty Permanent Shares, to surrender for cancellation and payment any or all such shares, stock or certificates held by them, upon notice so to do within a reasonable time stated in such notice."

This indicates more than one class of stock can be issued since it deals with calling in shares, stock and certificates other than Guaranty Permanent Shares. Since stock is referred to twice in this statute, once where a class can be called in, the other time where it cannot be called in, there must therefore, be more than one class of stock permissible.

(Continued - Page 2)

Page 2 - Veto, John L. Linn
 April 10, 1955

67-825 - Improper Payment of Dividends. This statute makes reference to classes of stockholders, classes of shares, and classes of certificates. The drafters of the legislation were clearly contemplating more than one class of stock; otherwise, the language in this statute would make no sense.

There are no statutes that are in contravention with the issuance of preferred stock

67-1801 - Definitions - "Stock association" shall mean an association that has issued an outstanding permanent capital stock and whose affairs are managed by a board of directors elected by the holders of such permanent capital stock.

After issuance of preferred stock, Madison Guaranty would continue to fit under this definition. Had there been any intention to restrict the issuance of preferred stock, it would have been very simple to insert language here to do so.

67-1818 - Permanent Capital Stock - Issuance - Par Value - Retirement of Stock. There is nothing in this statute limiting permanent capital stock to one class of stock or to being exclusively common stock. The purpose of the statute is to assure adequate capitalization of a stock association. The characterization of the stock or the number of classes thereof are irrelevant in terms of the stock being a capital base of the association.

In far as safety of the assets and ability to pay liabilities is concerned, the nature of the source of capitalization is not consequential. It is a management decision to issue preferred stock as it provides a means of increasing the capital in a company typically without giving up any control over its operation.

DT/sj

T. E. Ewing

From: Charles

RE: Can a State Chartered
Savings and Loan
Association issue
Preferred Stock

Date: April 3, 1984

On April 3, 1984 Mr.
Dana Fitzhugh from
Madison S & L phoned.
He said and stated that
his Association wanted
to issue some preferred
stock and wanted the forms
necessary to do such.

I reviewed the S & L
statutes and phoned Mr.
Fitzhugh back and told
him it was my opinion
that Ark. Stat. Ann. § 67-803
and 67-1518 (See Attached)
only provides for the
issuance of permanent
Preferred stock as common
stock in a stock association.

Mr. Fitzhugh told me that he had been advised that some State Chartered S. L. had issued preferred stock and there was a standard form issued by our Department for such. I told Mr. Fitzhugh I knew of no State Chartered association which had issued any preferred stock or of any such form.

I advised Mr. Fitzhugh that we would be glad to review him or the association's attorney reasons and opinions as to their ability to issue preferred stock.

Ark Stat Ann 55 67-181
67-1801 and 67-1832
(Copies attached) appear to be relevant to this issue, as well as the attached copy of a memorandum dated September 24 1925 to all State Chartered S. L. from Harner & Bell, U. S. Supervisor.

I am enclosing a
copy of this memo and
all attachments to Mr
Fitzhugh for his review
and comment.

Thank you.

Attachments:

CC: Mr. David Fitzhugh-

STATEMENT

Resolution Trust Corporation

Office of Inspector General
Office of Investigation

DateLittle Rock, Arkansas

I, Richard N. Massey, make the following statement to Phillip Sprague and Eric Nielson, who have identified themselves as Special Agents with the Resolution Trust Corporation, Office of Inspector General. This statement was prepared following my interview with Messrs. Sprague and Nielson on April 21, 1995, and is based on information I provided on that day.

1. Background.

I was hired by the Rose Law Firm ("Rose") in May 1984 and was admitted to the Bar in August 1984. I was placed on the Rose Law Firm letterhead upon passing the Bar. As an associate, I was paid a straight salary with a modest year-end bonus. I became a member of the firm (commonly referred to as a partner) in February 1989. I have been in the Securities Section of Rose since joining the firm. My primary area of expertise is corporate finance, which includes providing legal assistance and advice to entities seeking to raise money through public or private transactions. I came to Rose because I believe it is one of the best firms in Arkansas and in the region in the field of corporate finance.

2. Rose's Conflicts Procedure.

I have read Rose's Engagements and Conflicts policy, and I am generally familiar with it. To identify potential conflicts of interest, Rose attorneys follow the procedure set forth below: First, the attorney who is contacted by the potential client determines if the representation clearly would be adverse to a client known to him or her; if so, the attorney immediately rejects the representation or considers obtaining waivers from the appropriate clients. If the matter is declined, no forms are prepared and the attorney is not required to notify any other attorneys in the firm of his or her decision. Second, the attorney may ask some of the other attorneys in the firm if they know of a conflict. Third, if no conflicts have been identified thus far,

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the attorney notifies all of the other attorneys in the firm of the proposed representation by e-mail and asks them to identify any potential conflicts. Typically the e-mail asks for responses by a specified date and time. Fourth, the attorney requests that the firm's conflicts database be checked for potential conflicts. Often that request is made by sending a copy of the e-mail to the administrative employee who maintains the conflicts database. Fifth, the names of new clients and matters are circulated throughout the firm in our Daily Briefs, also known as the "pink sheets". Sixth, at the end of each week a New Business Summary is circulated to the attorneys which identifies all the parties involved in new matters that week. Each step of the procedure is designed to elicit information from other attorneys in the firm about potential conflicts.

Although I do not recall clearly the conflicts procedure used in 1985, I believe it was much the same. The primary differences between the procedure in 1985 and today are the result of improved technology. Today, the conflicts database is kept on a computer, while in 1985 it was, I believe, kept on index cards. Also, today the attorneys generally circulate an e-mail to other attorneys asking for known conflicts, while in 1985 we circulated a memorandum. In 1985, our conflicts database of index cards was kept by Willie Mae Ethridge. She was replaced by Connie Bull, who maintains the electronic database today.

In general, there are two kinds of conflicts under the applicable rules of ethical conduct -- those that can be waived, and those that cannot. If the proposed representation would be directly adverse to a current client of the firm, then the firm may not accept the new matter unless the attorney reasonably believes the representation will not adversely affect the relationship with the other client and each client consents after consultation. If the proposed representation would be materially adverse to the interests of a former client of the firm, then the firm may not accept the new matter if it is the same as or substantially related to the matter for which the firm represented the former client, unless the client consents after consultation. Although many conflicts may be waived by the client, Rose often decides for business reasons not to request a waiver and simply declines the new matter. For instance, a client who agrees to waive a conflict might be less inclined to retain the firm again in another matter. I personally have never sought a waiver from a client.

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If the conflicts procedure identifies a potential conflict, then an assessment must be made whether there is an actual conflict and, if so, whether it can be waived. Often, that determination can be made by the attorneys involved. If they do not resolve the issue, then it is presented to the Conflicts Committee. I have never been a member of Rose's Conflicts Committee. The Conflicts Committee discusses the issue and communicates its decisions informally to the attorneys. The attorneys may appeal the Conflicts Committee's decision to the full firm.

An important part of the conflicts procedure is the New Client Form. When a new matter is accepted, the responsible attorney submits a New Client Form to the firm's accounting department. That form identifies the parties who will be involved and identifies the matter. The New Client Form provides the information required by the accounting department to open a new account number, and it is used to create the new client/matter list in the Daily Briefs. That procedure has been in place since I started with Rose.

3. Rose's Prior Representation of Madison Guaranty.

In 1985, I worked on two matters for Madison Guaranty Savings and Loan ("Madison Guaranty") -- a proposal to issue preferred stock, and a proposal to operate a broker-dealer subsidiary. Rose was not the primary outside counsel for Madison Guaranty. Rose did not provide savings and loan regulatory advice to Madison Guaranty; Madison Guaranty used another law firm for such regulatory matters instead. The matters I worked on involved corporate finance, for which Rose was particularly well suited because Rose is one of the best corporate securities firms in the region.

I do not recall after the passage of ten years precisely how Rose was retained by Madison Guaranty. I recall that I had several conversations with John Latham, the president of Madison Guaranty, before Rose was first retained. In the fall of 1984 or spring of 1985, I was a co-lecturer of a Securities Law class at the University of Arkansas at Little Rock, and Mr. Latham attended that class. Often, Mr. Latham spoke to me after class or called me on the telephone to discuss various securities law issues. On occasion, Mr. Latham's assistant, Pat Heritage, called with other questions about securities law. Generally, those questions involved how the corporate and securities laws would apply to various scenarios to raise money. I did not charge Madison

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Guaranty for those informal conversations, although I encouraged Mr. Latham to retain Rose.

a. The Proposal to Issue Preferred Stock.

In the spring of 1985, Madison Guaranty retained Rose to work on a proposal to offer preferred stock. Madison Guaranty gave Rose a very narrow assignment -- to determine whether Madison Guaranty was permitted by Arkansas law to issue preferred stock. Madison Guaranty did not ask Rose whether or in what amounts it should raise money or whether it needed additional capital to meet regulatory requirements.

The narrow assignment from Madison Guaranty involved a very straightforward legal issue. Under Arkansas law, a state-chartered savings and loan has the same powers as a corporation under the Arkansas Business Corporation Act, unless the savings and loan statute expressly states otherwise. Because the Arkansas Business Corporation Act clearly authorizes corporations to issue preferred stock, and because the Arkansas savings and loan statute does not state otherwise, I concluded that Arkansas law permitted Madison Guaranty to issue preferred stock. I personally did that research and analysis. Based on that straightforward analysis, it was clear that an Arkansas-chartered savings and loan could lawfully issue preferred stock and that the Arkansas Security Commissioner had little, if any, discretion to construe the law to the contrary.

On April 30, 1985, I wrote a letter to Charles Handley of the Arkansas Securities Department (the "ASD") setting forth my analysis and conclusion on the preferred stock issue. The final paragraph of that letter states the legal conclusion I had reached:

"Because the Arkansas statutes expressly give to an Arkansas chartered savings and loan all of the powers possessed by a corporation under the Arkansas Business Corporations Act, which powers include the power to create and issue a class of preferred capital stock, and because we find no express prohibition in Act 227 [the savings and loan statute] against the creation or issuance of such a class of preferred stock, we have concluded that Madison Guaranty's proposed capitalization plan is not inconsistent with Arkansas law. Should you require further information or assistance, please advise Hillary Rodham Clinton or Richard Massey of this firm."

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I signed the letter "Rose Law Firm". I did so because, in my view, the letter stated a legal conclusion, and letters stating legal opinions or conclusions generally were signed in the name of the firm. The final paragraph of the April 30, 1985 letter provides my name and Ms. Clinton's name so the ASD would know who to contact for additional assistance or information. I included my name because I had analyzed the issue and prepared the letter; I included Ms. Clinton's name because she was the billing partner on this matter.

Ms. Clinton was a partner in the Litigation Section of the firm. There is no fixed procedure at Rose by which a lawyer becomes the billing attorney on a matter, although Rose policy prohibits associates with less than three years' experience from being a billing attorney. At the time of the Madison Guaranty representation in 1985, I was a first-year associate and therefore could not be the billing attorney. I do not recall how Ms. Clinton became the billing attorney for this matter. Under the billing procedures at Rose, the billing attorney periodically receives reports from the accounting department of unbilled fees and expenses and prepares the bills to the client. Any other attorneys working on the matter may not necessarily know who else has charged time to that client matter number.

I addressed my April 30 letter to Charles Handley because he was in charge of the day-to-day regulatory matters at the ASD. I have a vague recollection that prior to our engagement Mr. Latham may have called the ASD and asked whether Madison Guaranty could issue preferred stock, and that he was told to put his request in writing. Mr. Latham asked Rose to send such a letter, and I was assigned the task. I do not recall how I received the assignment. A copy of the April 30 letter also was sent to Beverly Bassett, the Arkansas Securities Commissioner. I do not recall why I sent a copy to her, although I assume it was because she was the Securities Commissioner.

The ASD replied by letter dated May 14, 1985. The ASD's letter says the ASD agreed with my legal conclusion that Madison Guaranty was not restricted by Arkansas law from issuing preferred stock. The letter is addressed to Ms. Clinton and begins with the salutation "Dear Hillary". I do not know why Ms. Bassett used that salutation. I suspect that she saw both my name and Ms. Clinton's name in my April 30 letter as persons to contact, and I was such a new attorney that she did not recognize my name. I do not place any special significance on the form of the greeting being "Dear

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Hillary". I believe that she probably would have addressed any other Rose partner she knew in the same manner. I do not recall being present at any meetings with the ASD on the preferred stock issue.

I have been shown a copy of a letter from Ms. Clinton to James McDougal dated May 23, 1985 concerning the ASD's approval of the proposal to issue preferred stock. I do not believe that I wrote that letter. I have never met Mr. McDougal, and therefore correspondence from me to him would have been inappropriate.

On October 25, 1985, I sent a letter to Mr. Latham enclosing documents I had drafted concerning the proposed issuance of preferred stock. I informed Mr. Latham that I would be out of the country until November 9, 1985, and I invited him to contact William Kennedy, then a partner in the Securities Section, if he had any questions. I do not recall any further work on the preferred stock matter after that letter.

It has been suggested in the press that Rose used Ms. Clinton in an attempt to gain undue influence with the ASD on this matter. That is absolutely not true. I included Ms. Clinton's name in my April 30, 1985 letter as a person to contact for more information solely because she was the billing partner on this matter. Moreover, this was a straightforward legal issue on which the Securities Commissioner had little, if any, discretion to disagree with our interpretation of the statutes. Therefore, there was no reason even to try to exercise any political influence on Ms. Bassett. In any event, to my knowledge Madison Guaranty never issued the preferred stock.

b. The Proposal to Operate a Broker-Dealer.

The second matter I recall working on for Madison Guaranty involved a proposal to operate a broker-dealer subsidiary. Madison Guaranty felt it could save money if it sold its preferred stock through its own broker-dealer, and it acquired a company with a broker-dealer license. I did not work on that acquisition. Mr. Latham asked me to prepare an application to the Arkansas Savings and Loan Advisory Board ("ASLAB") requesting permission to operate the broker/dealer. I believe that I performed nearly all of the work on this matter. I do not remember discussing the broker/dealer issue with Ms. Clinton, although it is possible I did so. I do not recall that Ms. Clinton played any part in presenting the issue to ASLAB.

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The broker-dealer issue was, in my view, just as straightforward as the preferred stock issue. Under Arkansas law, a state-chartered savings and loan had all of the powers of a federally-chartered institution. I concluded that federal law permitted a federally-chartered institution to operate a broker-dealer in the manner in which Madison Guaranty sought to operate its own broker/dealer, which under applicable Arkansas statutes meant that state-chartered savings and loans could do so as well. I viewed this as a relatively clear-cut legal issue for which ASLAB had little, if any, discretion to disagree.

The billing attorney on this matter was Ms. Clinton. As with the preferred stock matter, Rose's policies prohibited me from being the billing attorney because I had practiced law less than three years.

On May 14, 1985, I submitted the Application to the Arkansas Savings & Loan Association Board for Approval to Engage in Activities Not Specified in Article 5B of the Rules and Regulations of the Arkansas Savings & Loan Association Board (the "Application") on behalf of Madison Guaranty. The Application requested permission for Madison Guaranty to provide brokerage services through a second-tier service corporation. I prepared the Application with information provided to me by Mr. Latham. I do not believe I submitted any financial statements with the Application.

Mr. Handley of the Arkansas Securities Department responded to the Application by memorandum dated May 22, 1985. Mr. Handley's memorandum raised eleven highly detailed questions and comments to the Application. I considered Mr. Handley's comments to be excessive; for example, he quibbled with the Rule under which the Application was filed (comment 1). Mr. Handley's exhaustive review of the Application shows that Madison Guaranty did not receive any favorable treatment by ASLAB.

In those comments, Mr. Handley raised for the first time questions about Madison Guaranty's financial status (comments 6-8). His comment 8 refers to the audited financial statements of Madison Guaranty as of December 31, 1984. I do not believe I submitted those audited financial statements to ASLAB. It is my understanding that savings and loans chartered under Arkansas law are required to submit audited financial statements to ASLAB, and I suspect that is how Mr. Handley obtained them. In his comments, Mr. Handley also asked for current financial statements of Madison

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Guaranty. I do not believe that ASLAB had the authority to condition its approval of a broker-dealer subsidiary on Madison Guaranty's financial condition. That is because the federal statute permits savings and loans to operate a broker-dealer without regard to financial condition, and state law did not separately impose a financial condition test.

I submitted a response to Mr. Handley's comments in a letter dated June 17, 1985. I obtained all the information in that letter from Mr. Latham and others at Madison Guaranty. I submitted with that letter an unaudited balance sheet of Madison Financial Corporation as of May 30, 1985, unaudited financial statements of Madison Guaranty as of March 31, 1985, and the quarterly Minimum Net Worth calculations as of March 31, 1985. I was given those documents by Madison Guaranty. They all appear to me to have been prepared internally by Madison Guaranty rather than by its outside accountants, Frost & Company. I did not independently review the financial information for sufficiency or accuracy; instead, I relied on the expertise of the persons who prepared the financial statements.. My June 17, 1985 letter merely transmitted this information.

Mr. Handley responded to my letter in a memorandum dated June 18, 1985. Mr. Handley raised several more highly detailed comments and questions about the Application. On page 1 of his memorandum, Mr. Handley also refers to Madison Guaranty's investments in Whitener & Associates and Campobello. I knew nothing about those investments. Mr. Handley also questioned Madison Guaranty's net worth and its adjustments to retained earnings. I knew very little about the Generally Accepted Accounting Principles (GAAP) and Regulatory Accounting Principles (RAP) under which those calculations were made. I am not an accountant, and I had no reason to independently question or verify those calculations, as this would have been clearly outside the scope of our engagement.

I responded to Mr. Handley's comments in a letter dated July 10, 1985. I transmitted with that letter the most recent financial statements of Madison Financial Corporation, a worksheet calculating investments in Madison Financial Corporation by Madison Guaranty, and Madison Guaranty's unaudited balance sheet as of May 31, 1985. All of the attachments to this letter were provided to me by Mr. Latham, and I believe they were prepared internally by Madison Guaranty rather than by Frost & Company.

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Mr. Handley responded to the July 10 letter in a memorandum dated July 17, 1985. Once again, Mr. Handley raised several highly detailed questions about the proposal and about Madison Guaranty's financial status. Mr. Handley also questioned certain adjustments made to Madison Guaranty's net worth as of December 31, 1984 in its audited financial statements. Neither I nor, to my knowledge, any Rose lawyer performed or had reason to perform an independent analysis of those adjustments under RAP and GAAP. All of the financial information I transmitted to ASLAB was supplied to me by Mr. Latham or other employees of Madison Guaranty, and I relied on their expertise for its accuracy. Review or verification of financial information was outside the scope of Rose's engagement, which was simply to obtain approval to operate a broker/dealer.

I responded to Mr. Handley's July 17 memorandum with a letter dated July 25, 1985. With that letter, I transmitted to ASLAB, among other things, a letter signed by Mr. Latham and a letter signed by Michael D. Robinson of Frost & Company. The letters by Mr. Latham and by Mr. Robinson discussed the adjustments to Madison Guaranty's net worth as of December 31, 1985 under RAP and GAAP. I was generally aware that there were differences between RAP and GAAP because new accounting principles had been promulgated and had been discussed in the press. However, I did not independently review the analyses by Mr. Latham and by Mr. Robinson, nor did I discuss their letters with anyone to determine whether they had applied the appropriate accounting principles correctly. I did not request these letters and I did not speak to anyone at Frost about its letter. Instead, I relied entirely on their financial expertise. My cover letter simply stated the conclusion that the adjustments to net worth were the results of differences between RAP and GAAP. I do not recall having any discussions with Mr. Latham or others about whether Madison Guaranty was solvent or about its financial condition generally.

On approximately August 27, 1985, a meeting was held with ASLAB to discuss the Application. Mr. Latham and I attended on behalf of Madison Guaranty, and Ms. Bassett, Mr. Handley and perhaps another person attended for ASLAB. Neither Ms. Clinton nor anyone else from Rose attended that meeting. At that meeting, Ms. Bassett informed us that she would not approve the Application until Madison Guaranty demonstrated its ability to meet regulatory net worth requirements by year-end. I do not recall any other meetings with ASLAB concerning the Application.

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After the meeting, I prepared a letter responding to Ms. Bassett's concerns. I believe the response is in a letter dated September 9, 1985, although I have seen a substantially similar version of that letter dated August 30, 1985. In that letter, I described two transactions proposed by Madison Guaranty -- the sale of preferred stock and the sale of limited partnership units. The letter was written to explain to Ms. Bassett how Madison Guaranty intended to meet the applicable regulatory net worth requirements. I do not recall why there are minor differences in the August 30 and September 9 drafts of the letter. I believe Mr. Latham provided me with the information necessary to draft the letter.

Ms. Bassett responded by letter dated October 17, 1985. Rather than authorizing Madison Guaranty to operate a broker-dealer subsidiary, Ms. Bassett conditioned the approval on Madison Guaranty actually meeting the regulatory net worth requirements by year-end. Because neither federal nor state law established net worth limitations on the ability of a savings and loan to operate a broker-dealer subsidiary, I do not believe the Securities Commissioner had the authority or discretion to impose such a condition on the Application. To the best of my knowledge, Madison Guaranty did not raise additional capital, did not satisfy the net worth condition imposed by Ms. Bassett and therefore never operated a broker-dealer.

I have been shown a copy of a letter from Stephen Cuffman, an attorney with Cuffman & Cuffman, to John Latham, dated October 9, 1985. The letter appears to address the proposed preferred stock issue by Madison Guaranty. I have not seen that letter before.

c. Other Matters for Madison Guaranty.

Mr. Latham told me that Madison Guaranty was considering forming a limited partnership and selling limited partnership units. I mentioned Madison Guaranty's idea to Mr. Kennedy, who had significant experience in such transactions. Mr. Kennedy agreed to be available in my absence to answer questions that Madison Guaranty might have about the idea. I do not recall any significant work on that issue. To my knowledge, Madison Guaranty did not sell limited partnership units.

I have been shown copies of two letters from Pat Jones (Heritage) dated August 8, 1985 and August 9, 1985. At the time, Ms. Heritage was an assistant to Mr. Latham. Those letters refer

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Frost lawsuit or savings and loan litigation work in general. I told Mr. Foster about my assistance to Madison Guaranty in the two matters described above. I asked Mr. Foster if he thought there was a conflict, and Mr. Foster said that he did not think so but would discuss it with the government. Mr. Foster also asked me whether Rose had done any other savings and loan work. Mr. Foster was always very careful, and he often informed clients about issues that were not actual conflicts. I do not recall when this conversation occurred, but it was some time before Rose agreed to represent the RTC in the Frost litigation.

After I learned that Rose had been retained by the government in the Frost case, I asked Mr. Foster whether he had mentioned the prior representation of Madison Guaranty to the government. Mr. Foster said that he had discussed the issue with the government, but I do not believe he said who he had contacted. Mr. Foster told me that the government agreed that Rose's prior representation of Madison Guaranty did not pose a conflict of interest. Based upon my knowledge of Vince Foster as a careful lawyer of high integrity, I accept as true Mr. Foster's statement to me that he had discussed this issue with the government.

5. Other Matters.

I have been asked if I know someone named E.J. Massey. I do not, although there are a number of Masseys in Arkansas, and conceivably I could be related to him or her.

At the time I represented Madison Guaranty, I do not believe that I knew that Seth Ward was Webb Hubbell's father-in-law. I also do not believe that I knew Mr. Ward was on the Board of Directors of Madison Guaranty. Since doing the 1985 work for Madison Guaranty, I have learned Seth Ward is Mr. Hubbell's father-in-law.

6. Conclusion.

I believe that Madison retained Rose to work on the preferred stock proposal and the broker-dealer proposal because Rose is among the best law firms in the region to perform such securities work. I doubt that Madison Guaranty hired Rose in an effort to use whatever influence Ms. Clinton may have had to impress the Arkansas regulators. That is because Madison Guaranty hired Rose only for narrow and straightforward securities law issues and used another law firm for its ongoing regulatory matters. To my knowledge, Rose

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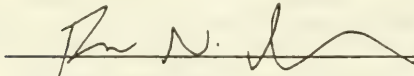
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did not have any discussions with the regulators about whether Madison Guaranty was undercapitalized or solvent, nor did we try to persuade the regulators to keep Madison Guaranty open.

I do not believe that the Arkansas regulators were influenced by Ms. Clinton's presence at Rose. In my view, the ASD and the ASLAB had little, if any, discretion to deny the requests submitted on behalf of Madison Guaranty. Nevertheless, Mr. Handley aggressively challenged the Application to operate a broker-dealer and raised numerous questions and comments at every turn. When ASLAB finally approved the Application, it imposed conditions that Madison Guaranty ultimately did not meet.

The speculation that the work I did for Madison Guaranty created a conflict of interest in the Frost litigation is unfounded. I do not believe that I submitted to ASLAB any financial statements prepared by Frost. Further, I did not independently review or analyze Madison Guaranty's financial condition, nor did I have the expertise to do so. I do not recall ever having dealt with Frost regarding Madison. Instead, I relied on the expertise of the employees and accountants of Madison Guaranty who prepared its financial statements, and I simply transmitted that information to the regulators.

I have read the foregoing statement consisting of 13 pages and it is true and accurate to the best of my knowledge and belief. I have initialed each page.



Signature of Maker

6/15/95

Date

ROSE LAW FIRM

A PROFESSIONAL ASSOCIATION

ATTORNEYS

120 EAST FOURTH STREET
LITTLE ROCK, ARKANSAS 72201TELEPHONE (501) 375-0131
TELECOM (501) 375-1300

October 10, 1983

Madison/Rose

1

V. W. ROSE
-814-003J. GASTON WILLIAMSON
PHILLIP CARROLL
W. GARY CLAY
C. JOSEPH O'DONNELL JR.
GEORGE E. CAMPBELL
HERBERT C. RULE, III
STANLEY E. PRICE
W. WALT O'BRIEN, III
D. WILSON JONES
VINCENT FOSTER, JR.
CHARLES C. OWEN
ALLEN W. BIRD, II
WILLIAM E. BISHOP
HILLARY RODHAM CLINTON
C. BRADLEY BUCK
F.W. 806W. JAMES O'CREY
WILLIAM W. KENNEDY, III
ROBERT E. SWANN
RICHARD S. STEPHENS
RONALD W. CLARK
CARLTON J. GARNETT
JERRY C. JONES
THOMAS P. THOMAS
DAVID A. BRIGHT
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JACOBSON FARMER, JR.
JAMES W. BENICE, III
LES A. GALEGOS
JIM HUNTER BROWN
D. DAVID THOMAS, JR.COUNSEL
WEBSTER L. MURRELLMr. James B. McDougal
Chairman of the Board
Bank of Kingston
101 Public Square
Kingston, AR 72742

Dear Jim:

Pursuant to your discussion with Hillary Rodham Clinton, I am enclosing herewith a copy of our firm statement, dated December 23, 1981, covering services rendered in connection with the matter of the First National Bank of Huntsville v. Madison Bank and Trust.

Very truly yours,

C. J. Giroir, Jr.

CJGjr:sg
Encl.

LAW OFFICE OF

ROSE LAW FIRM

A PROFESSIONAL ASSOCIATION

120 EAST FOURTH STREET

LITTLE ROCK, ARKANSAS 72201

PHONE 501 373-8131

IN ACCOUNT WITH

December 23, 1981

MR. James B. McDougal
 Chairman of the Board
 Bank of Kingston
 Kingston, AR 72742

Tax identification number 71 0438614

CJG/sq

FOR LEGAL SERVICES AND PROFESSIONAL ADVICE
 rendered by Vincent Foster, Jr., Carol Arnold
 and Mary Ellen Russell subsequent to our
 billing dated December 23, 1981 through May
 15, 1982 in connection with the matter of
 First National Bank of Huntsville v. Madison
 Bank and Trust; Madison Chancery #E-81-112----- \$ 5,000.00

COSTS ADVANCED SUBSEQUENT TO OUR BILLING DATED
 DECEMBER 23, 1981 THROUGH JULY 31, 1982:

Long distance telephone	\$ 91.17
Xerox charges	21.40
Extraordinary postage	1.56
Package delivery expenses	6.70
Supreme Court Clerk	100.00
Computer Research	92.70
Trevathan Printing Company	<u>580.10</u>

Total costs----- \$ 893.63

TOTAL FEES AND COSTS----- \$ 5,893.63

MINUTES OF MADISON BANK AND TRUST
BOARD MEETING

The regular board meeting of Madison Bank and Trust met Tuesday, November 27, 1984 at the Madison County Telephone office at 6:00 PM. All members were present, and Chairman McDougal announced a quorum was present and called the meeting to order.

The first order of business was the discussion of the Auditor's Report and Management Letter. The Payroll Procedures and the Incomplete Loan Accounts were discussed. It was suggested that the accountant instruct bank personnel in a method that would more accurately reflect withholding at each pay period.

The bond was discussed. The high rate was of concern to the members. The Board instructed President Bunch to send a letter to State Bank Commissioner to determine another possible course of action.

The FDIC Report of Examination of August 24, 1984 was discussed. This report was discussed at board meeting in September in Fayetteville. Report again reviewed and discussed. Letter from Mr. Halvorson was made part of minutes on motion by Austin Smith, seconded by Julie Baldridge. It was approved unanimously.

The minutes of the September meeting were read, reviewed, corrected, and approved unanimously. The loan portfolio was produced by Mr. Bunch, with trouble loans highlighted, and reviewed by Board. With loan reserve ratio in mind, it was believed the reserve was adequate based on this.

The Daily Statement was read, reviewed, and approved unanimously. It was noted that earnings were \$69,048 with a L/D Ratio of 51% and the Capital Ratio of 7.6%. The reduction in earnings was attributed to heavy accounting fees for the audit and a payment of legal fees from 1983 lawsuit. President Bunch noted it was impossible that the Bank's Capital Account could be evaluated because the accrual system on CD's was not daily. Beginning now, we will move to find a method for daily accrual. It also was noted that a \$225,000 CD was accepted

MINUTES OF THE MADISON BANK AND TRUST
BOARD MEETING

regular monthly board meeting of Madison Bank and Trust met Tuesday, November 25, 1984 at the Hilton in Fayetteville, Arkansas at 2:00 PM. Members present were John Robertson, Jerry Pickingspaugh, and [redacted] Thornton. Members present from the State Bank Department were Clark and Larry Hillyard. The members were admitted to the meeting without objection. All the board members were present except Director Shrum and Director Austin Smith.

versely classified loans were discussed as follows:

[redacted] - Proposing a 10% reduction in principal plus interest. Suit to be filed if there isn't a reduction in principal or if the loan is not properly secured. It will be charged off if the above arrangements are made.

[redacted] - Has reduced his loans to \$58,000.

[redacted] stated there were 2% overdue loans at examination. He feels extensions without principal reduction too numerous.

[redacted] asked about periodic review system of loans and was informed that review does take place but was not properly documented in minutes.

[redacted] asked if there were any surprises on classification lists and if this review would prevent such surprises. Board said they felt these were good loans.

[redacted] said examiners were looking more at cash flow and ability to pay than at collateral.

Director Steve Smith moved we amend minutes of last board meeting to reflect the loan loss reserve amount is reviewed each month.

Capital and earnings were reviewed. 7.5% at examination considered good by [redacted]. He asked board what they intended to do about this. Director Smith said he would move to reduce jumbo certificates as most expedient way to raise capital ratio.

Motions were discussed. Three overlines (over \$60,200).

[redacted] - reduced to conformity amount.

[redacted] - \$25,000 coming out by October board meeting.

[redacted] - \$100,000 still excess/still in court.

[redacted] motion of capital reserve arrived at by next board meeting.

[redacted] Being no further business, meeting was adjourned.

Thomton requested letter in detail on Cease and Desist Compliance during the October board meeting.

Clark stated his office is pleased with the progress made and urges board to continue on with good work and to pursue all charges. Mr. McDougal expressed thanks to examiners for courteous and efficient work. The examiners departed and the board meeting continued.

Reports were read, reviewed, and approved unanimously.

Statement read, reviewed, and approved unanimously. It was noted earnings were at \$59,861 with L/D ratio at 55%. Blanket bond needed. The audit is completed. Mr. Samples moved and Mr. Vaughn seconded that Mr. Bunch have discretionary power to secure bond on time. Approved unanimously.

Mr. Bunch moved, Mr. Bunch seconded that action to transfer \$50,000 from undistributed profits to surplus be rescinded. Adopted unanimously.

Loans were discussed. [redacted] loan discussed. Directors asked for closer scrutiny on this loan.

The loans reviewed.

[redacted] house deeded to bank. Will list immediately for sale at \$40,000.

[redacted] - This may be problem. Total loan is \$25,000 with house worth in excess of \$40,000 with first mortgage. At 45 days, it is to go to attorney. Divorce impending.

[redacted] - \$5,000 in escrow for radio station. Mr. Bunch will call Pat Demaree regarding when sale of radio station.

[redacted] - Ask for collateral first, then principal reduction. [redacted] on Huntsville Service & Supply note, and this can bring pressure. Mr. Bunch will proceed on this order.

[redacted] - Working and will pay.

[redacted] - He has called and stated he needs more time.

[redacted] - Asked for renewal on loan for \$31,500 with a \$1,000 reduction in principal plus interest at prevailing rate. Julie Baldridge moved, Easterling seconded that loan be renewed at prevailing rate with a 1,000 reduction in principal plus interest. It was approved unanimously.

[redacted] - Prosecuting attorney will be pursuing. Also will ask bankruptcy court to declare this a "nondischargable" debt to pursue at length.

Firm - We owe \$5,000 for Huntsville move appeal, according to firm. Discussed the fact that new lawyer sent to argue case. Mr. Vaughn moved, Mr. McDougal seconded that Mr. Bunch will negotiate settlement with firm. Approved unanimously.

Mr. McDougal suggested books be adjusted to monthly payouts for annual dividend to pursue Wonder State diligently. He also suggested that amount of capital reserve arrived at by next board meeting.

With no further business, meeting was adjourned.

August D. Bunch

DEBIT GENERAL LEDGER

ACCOUNT NUMBER 76011ACCOUNT
TITLELegal feesDATE 10-23-84

DESCRIPTION	AMOUNT	
<u>2619</u>	<u>51500</u>	<u>00</u>
CONTRA ENTRY		
DRAWN BY _____ APPROVED BY _____ TOTAL		

Vinson & Elkins

ATTORNEYS AT LAW

VINSON & ELKINS L.L.P.
THE WILLARD OFFICE BUILDING
1455 PENNSYLVANIA AVE. N.W.
WASHINGTON, D.C. 20004-1008
TELEPHONE (202) 639-6500
FAX (202) 639-6604

WRITER'S TELEPHONE

(202) 639-6613

April 18, 1996

By Hand

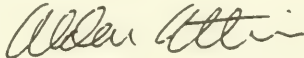
Alice Fisher, Esq.
United States Senate
Committee on Banking, Housing
and Urban Affairs
534 Dirksen Senate Ofc. Bldg.
Washington, D.C. 20510-6075

Re: Rose Law Firm

Dear Alice:

I am producing to you today documents numbered RS 002901 through RS 002908. These are the additional documents we recently located that I described to you yesterday concerning Madison Guaranty and Bank of Kingston files checked out of Rose's remote warehouse. In addition, I reviewed our production of documents concerning the Bank of Kingston. Although we had produced several fee credit reports, I discovered that a few pages were inadvertently not included in our prior production, and I am producing them to you today.

Sincerely yours,



Alden L. Atkins

cc: [✓]Lance Cole [w/encls.]
Ronald M. Clark

HOUSTON DALLAS WASHINGTON, D.C. AUSTIN MOSCOW LONDON MEXICO CITY SINGAPORE

Vinson & Elkins L.L.P. is a Registered Limited Liability Partnership

Accounting Sheet-105

Date |

RS 002902

2/14/92 - '87 (M's) Rail Client }
 { '85 Madison Guaranty }
 { '86 (M's) }
 2/21/92 '81 + '82 B's + K's Mary
 (on Metal Cabinet)

3/24 Files marked u-

3/24 Vama - 110

3/24 File

RS 002904

3/24 Marion Bureau (A-4, K-2 (sec. 95)) / A-353

3-25-60 SL Erosion

VE/WR A 72891

FEES

LITIGATION

NOVEMBER, 1984

FOSTER, VINCENT W., JR.

Bank of Kingston

2,726.63

Nov. 1984

ARNOLD, CAROL S.

T-100

Bank of Kingston

1,355.11

Nov. 1984

RUSSELL, MARY ELLAN

Bank of Kingston

24.63

RS 002907

ROSE LAW FIRM
A PROFESSIONAL ASSOCIATION
130 EAST FOURTH STREET
LITTLE ROCK, ARKANSAS 72201

*Madison
Bank*

IN ACCOUNT WITH

December 30, 1981

Mr. James McDougall
Chairman of the Board
Bank of Kingston
101 Public Square
Little Rock, Arkansas 72201

CIG/45

FOR LEGAL SERVICES AND PROFESSIONAL FEE
rendered by R. J. Giesse, Jr. and Paul H. M.
Steinkamp for the period from December 15, 1981,
including time spent in preparation of proof
or exemption (54-1) (a) Letter to the Chairman,
Arkansas Securities Commission; Madison Money
Certificate Repurchase Agreement and Acknowledgment;
Disclosure Statement; and Collateral Trust Agreement
between Madison Bank and Trust at Winston and
Northern Bank & Trust Company, N.A.-----\$ 260.00

COSTS ADVANCED TO DATE:

Long distance telephone	\$ 3.90
Secretarial overtime	<u>4.65</u>
Total costs-----	\$ 8.55
TOTAL FEE AND COSTS-----	\$ <u>268.55</u>

Allocations:

Steinkamp \$ 260.00

part of
PAID *Bank of Kingston*
CK # *10319*
DATE *12/25/81*

RS 002908

FDIC

Federal Deposit Insurance Corporation
Washington, D.C. 20429

Office of Legislative A

April 30, 1996

Honorable Alfonse M. D'Amato
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Enclosed is the first set of documents that are responsive to Robert J. Giuffra, Jr.'s letter, dated April 17, 1996. We have interpreted Mr. Giuffra's letter to request documents that relate to fees and charges, including budgets, submitted by Pillsbury, Madison & Sutro (PM&S) to the Resolution Trust Corporation and Federal Deposit Insurance Corporation or created by the RTC and FDIC.

To assemble these documents, we reviewed the Madison-related records of the following former RTC attorneys who worked on the Madison Guaranty investigation: Terry Arbit, Melinda Kranishu, James Igo, Mark Gabrellian, Thomas Hinds, Andrew Tomback, Ellen Kulka, and William Collishaw. In addition, we reviewed the files of the current FDIC attorneys working on the Madison Guaranty investigation - James Igo, M. Lauck Walton and John Thomas - for their responsive documents. As previously noted, all of the Madison-related documents that have been collected by the FDIC and RTC are available for your staff's review.

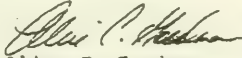
Please be advised that fee information submitted by PM&S relating to matters other than Madison Guaranty Savings & Loan was redacted. PM&S also redacted certain information on invoices that relate to clients other than the RTC and FDIC. The enclosed responsive documents are bates numbered "S-TA00001 through 102," "S-MMK00002 through 9," "S-JI00017 through 434," "S-MG00106 through 700," "S-TH00434 - 454," "S-EK00326 - 338," and "S-MLW00024."

Finally, enclosed is a complete set of the PM&S invoices which are maintained by the FDIC's Legal Information System Section. We also are enclosing copies of all invoices submitted by PM&S which are included in the RTC Professional Liability Section central files and are now located in boxes I-388 through 390 in the Madison storage room.

The FDIC as successor to the RTC expressly reserves its rights in the privileged and confidential nature of these documents. The production of these documents pursuant to your request and the subpoenas issued to the RTC and FDIC by the Special Committee does not constitute a waiver of any privilege attaching to the documents, nor does it authorize any such waiver.

We hope this information is of assistance to you. If you have any questions, please let me know.

Sincerely,



Alice C. Goodman
Director
Office of Legislative Affairs

Enclosures

bcc: Robert J. Giuffra, Jr.
Chief Counsel (withoug enclosure)

5TH STORY of Level 1 printed in FULL format.

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Los Angeles Times

November 7, 1993, Sunday, Home Edition

SECTION: Part A; Page 17; Column 1; National Desk

LENGTH: 1909 words

HEADLINE: FALLOUT FROM COLLAPSE OF S&L SHADOWS CLINTON;
INQUIRY: TWO TARGETS OF CRIMINAL PROBES CHARGE THAT THE THEN-GOVERNOR HAD A ROLE
IN THE DEBACLE. THE WHITE HOUSE STRONGLY DISPUTES THE ALLEGATIONS.

BYLINE: By WILLIAM C. REMPEL and DOUGLAS FRANTZ, TIMES STAFF WRITERS

DATELINE: LITTLE ROCK, Ark.

BODY:

The 1989 failure of a small Arkansas savings and loan has triggered criminal probes targeting some of President Clinton's oldest friends and political allies, compelling the President repeatedly to deny allegations that he had a role in the debacle.

One of those longtime Clinton associates is James B. McDougal, former owner of the ill-fated Madison Guaranty Savings & Loan, who told The Times that he hired the then-governor's wife, attorney Hillary Rodham Clinton, in 1984 because Clinton said his family needed financial help.

David Hale, another longtime political supporter and former Clinton-appointed judge who is currently under federal indictment for loan fraud, said he made a \$300,000 loan to McDougal's wife in 1986 after Clinton personally asked him to help.

That loan, backed by the Small Business Administration that subsidized Hale's investment company, was never repaid.

McDougal has acknowledged that \$110,000 of that SBA-backed loan was invested in an Ozarks real estate venture in which the Clintons were half-owners.

Both claims -- that the governor lobbied the ailing thrift to hire his wife and that he urged Hale to loan money that went into a Clinton-owned business -- have been strongly disputed by the White House. Clinton told reporters last week that he and his wife had done nothing improper.

But such allegations, raising questions about possible conflicts of interest and abuse of office by the then-governor of Arkansas, continue to be nettlesome because they are coming not from Clinton's critics but from some of his oldest friends and supporters.

Take, for example, the story behind Hillary Clinton's legal retainer.

The matter first became an issue during last year's presidential campaign when it was disclosed that Hillary Clinton had represented the savings and loan in an appeal for favorable action by the state securities commissioner, an appointee of her husband, the governor.

Los Angeles Times, November 7, 1993

What had not been previously reported was McDougal's explanation for hiring the governor's wife. He provided this account in a recent interview with The Times:

Early one morning about nine years ago, McDougal answered a knock at his office door from a winded and sweating Clinton, out on one of his morning jogs. Clinton was then struggling to retire campaign debts and to make ends meet on his \$35,000-a-year salary. The governor expressed concern about his family's financial condition and told McDougal that "things were tight," requesting that the savings and loan send some business to Hillary Clinton through her law firm.

"I asked him how much he needed, and Clinton said 'about \$2,000 a month' " McDougal said. Later that day, the Madison Guaranty owner said, he directed an S&L executive to immediately put Hillary Clinton's Rose Law Firm on retainer for that amount.

"I hired Hillary because Bill came in whimpering they needed help," McDougal told The Times. He said he had no specific legal work in mind when he hired Hillary Clinton.

McDougal said he recalled the event vividly because he was so uncomfortable in the meeting -- not over the retainer issue, but because throughout that morning conference, Clinton sat sweating in McDougal's new leather desk chair, an expensive gift from his wife.

There is no dispute that Hillary Clinton subsequently went on retainer for Madison Guaranty at \$2,000 a month. But White House Press Secretary Dee Dee Myers said Clinton never sought business for his wife.

"The President had nothing to do with it," Myers said. "He never solicited business for the Rose Law Firm or his wife. This never happened."

McDougal, who was acquitted in 1990 of loan fraud charges stemming from his S&L's collapse, acknowledged that he is the subject of a renewed criminal investigation into other aspects of the thrift's failure.

But White House efforts to discredit McDougal pose something of a dilemma since he was once a close friend and business partner of Clinton. It was their business arrangement that first brought Clinton some political embarrassment.

Early in the 1992 presidential campaign, the New York Times disclosed their partnership in a speculative land venture called Whitewater Development. The Clintons and McDougals shared 50-50 interest in the Ozarks project from 1978 until the very eve of the presidential inauguration.

The Clintons reportedly lost money in the deal. However, the press account questioned whether the governor should have been in any kind of business relationship with the owner of a state-regulated savings and loan.

Compounding concerns about such potential conflicts of interest was the disclosure that Hillary Clinton, while on retainer to Madison Guaranty, had represented the S&L in its appeal to the state securities commissioner.

Last week, the Washington Post reported that federal investigators are trying to determine whether McDougal may have improperly used Madison Guaranty funds

Los Angeles Times, November 7, 1993

to help Clinton retire his 1984 campaign debt.

In April, 1985, the S&L hosted a fund-raiser at its Main Street office to raise \$35,000 for Clinton. Investigators suspect that \$12,000 of that money may have come from overdrafts at the faltering financial institution. At the time, McDougal was trying to get state approval to raise new capital for the savings and loan through various unconventional means.

That approval later was granted after an exchange of correspondence between the newly appointed state securities commissioner and the Rose Law Firm, one of which was addressed to "Dear Hillary."

Hillary Clinton has said she did only minimal work on the appeal and that there was no conflict of interest involved. Beverly Bassett Schaffer, the Clinton-appointed securities commissioner, said in an interview that Hillary Clinton's role did not influence her approval of the appeal.

Ultimately, the state-approved capitalization plans were not implemented, in part because Madison Guaranty's financial condition deteriorated too rapidly.

Meanwhile, during the same period that Madison Guaranty was helping Clinton raise campaign money and paying a legal retainer to the governor's wife, the state sent some business Madison Guaranty's way as well. A state of Arkansas revenue office rented a vacant building controlled by the S&L. McDougal, according to published accounts, said Clinton had helped him get the contract.

By early 1986, however, the condition of Madison Guaranty was sufficiently perilous that McDougal and others were especially concerned about a pending federal examination of their books and records.

McDougal denied knowledge that his S&L was in trouble, but a previous bank examination in 1984 had already cited Madison Guaranty's extensive real estate loans to entities controlled by McDougal and his associates.

Examiners warned that the "viability of the institution is jeopardized through (its) current investment and lending practices in real estate development projects."

Records show that McDougal had invested heavily in a number of real estate development deals, some of them with politically prominent people. Those loans and investments would result in another scathing bank examination report in 1986.

It was in anticipation of such criticism, Hale said, that McDougal asked him for help. It also is the origin of another disputed link between the failing S&L and Clinton.

In a series of interviews, Hale provided this account:

It was around February, 1986, when he was called to a meeting with Clinton in one of McDougal's real estate development offices on the outskirts of Little Rock.

At the time, Hale operated a family investment firm called Capital-Management Services, which loaned out venture capital to minority and disadvantaged

Los Angeles Times, November 7, 1993

borrowers and which was subsidized by the SBA. According to Hale, McDougal had previously asked him to help clear up some potentially troublesome obligations involving "the political family" on the Madison Guaranty books. He said he came to learn that the family included Clinton, although he did not know details of the governor's involvement with McDougal or the S&L.

On one occasion, when Hale happened to be waiting for a ride on the steps of the state Capitol as Clinton passed, he said the governor approached and asked if Hale was going to be able to "help Jim and me out."

Hale was a prominent Arkansas Democrat, and he and his family were longtime political supporters of Clinton. When the governor created the state's first municipal small claims court, he named Hale as its first judge. By early 1986, Hale was running the biggest court in the state.

"I knew I had to help. There never was any question," Hale said.

At the February meeting with Clinton and McDougal, Hale said discussions centered on how to structure a \$150,000 loan using Hale's SBA-backed fund.

"Bill said they could use some raw land in the Ozarks as collateral, but that his name couldn't appear on any of the documents," Hale said, noting that he declined the offer of raw land as security since the SBA did not consider it reliable collateral.

They agreed, Hale said, to make the loan in the name of Susan McDougal, the Madison Guaranty owner's wife. Hale said that some days after the meeting with Clinton, McDougal asked Hale to raise the loan amount to \$300,000. The increase was not discussed with Clinton, he said.

The White House said last week that Clinton had no recollection of any meeting with Hale about a loan. McDougal also said the meeting never occurred.

However, not in dispute is the fact that Hale did make a \$300,000 loan to Susan McDougal, doing business as Master Marketing. What happened to most of the money remains a mystery.

According to McDougal and documents, \$110,000 of that loan went toward a down payment on land for the Clinton-McDougal Whitewater Development project. McDougal said he made that investment without consulting the Clintons and the land was later lost to foreclosure.

The \$300,000 loan to Susan McDougal, now divorced from the former thrift owner, also went into default, contributing to a financial crisis in Hale's SBA-backed fund that he contends led to his current legal problems. In July, he was indicted on three counts of loan fraud unrelated to the McDougal transaction and immediately resigned from the bench. He remains under investigation.

While it has been more than four years since Madison Guaranty failed, costing U.S. taxpayers about \$47 million, criminal investigations arising from the failure continue. In recent weeks, sources say, federal regulators have asked U.S. Atty. Paula Casey, also a Clinton appointee, to investigate several other transactions at Madison Guaranty. As a result, McDougal -- like Hale -- remains under a cloud.

Los Angeles Times, November 7, 1993

White House officials point to the criminal charges pending against Hale and the potential charges against McDougal as evidence that their stories about Clinton are not to be believed. Nonetheless, the Administration has been unable to quiet the controversy.

Last week, Sen. Lauch Faircloth (R-N.C.) asked Atty. Gen. Janet Reno to appoint an independent counsel to look into the finances of Whitewater Development. Reno declined, saying the Justice Department can handle any necessary inquiry.

On Thursday, Rep. John J. LaFalce (D-N.Y.), chairman of the House Small Business Committee, asked the SBA inspector general to investigate Hale's \$300,000 loan to Susan McDougal, including the \$110,000 diversion to the Ozark property development.

GRAPHIC: Photo, James B. McDougal Associated Press

LANGUAGE: ENGLISH

ROSE LAW FIRM

ATTORNEYS

120 EAST FOURTH STREET

LITTLE ROCK, ARKANSAS 72201

TELEPHONE 18011 375-9131

TELETYPE 18011 375-3008

J. H. ROSE

18011 375-9131

April 30, 1985

J. GASTON WILLIAMSON
PHILIP CARROLL
W. DAVID CAT
C. JOSEPH GARDNER, JR.
GEORGE E. CAMPBELL
HERBERT C. RULE, III
STANLEY E. PRICE
W. WATT GREGORY, III
W. WILSON JONES
VINCENT FOSTER, JR.
WALTER L. HUSSELL
ALLEN W. BIRD, II
WILLIAM E. BISHOP
WILLIAM ROBERT CLINTON
C. BRANTLY SNICE
TIM BIDE
W. JAMES DICKEY
WILLIAM W. KENNEDY, III
KENNETH R. SHERIN
DAVID A. KNIGHT

RONALD H. CLARK
BENJAMIN J. GARRETT
JOSEPH E. JONES
THOMAS F. THORNTON
CAROL S. ARNOLD
JACOBSON FARRIS JR.
LES E. SALEDORF
JIM HUNTER BIRCH
R. DAVID THOMAS, JR.
DAVID L. WILLIAMS
CATHERINE LAMSTER
MICHAEL T. DONOVAN
MICHAEL R. JONES
NORTH A. THOMAS
SUSAN KALESTON HILLAR
RICHARD D. RABBITT
GARY D. SPEED
CHARLES W. BAKER
OF COUNSEL

Mr. Charles Hanley
Arkansas Securities Department
One Capitol Mall
Little Rock, Arkansas 72201

Re: Authorization and Issuance of a class of Preferred
Stock by Madison Guaranty, a Savings and
Loan Chartered under the laws of the State of Arkansas

Dear Mr. Hanley:

Madison Guaranty, a Savings and Loan chartered under the laws of the State of Arkansas, contemplates a capitalization plan whereby it would authorize and issue a class of ~~preferred stock~~ preferred stock which would have preference as to dividends and amounts paid in liquidation. The question has arisen as to whether an Arkansas chartered Savings and Loan Association may under Arkansas law create, authorize and issue a class of preferred stock. For the reasons stated below, we are of the opinion that a state chartered savings and loan may do so.

Arkansas statute 67§1964 (1971) provides in pertinent part:

§ 1
Act 110
1971
" ... (T)he Arkansas Business Corporation Act, ... as amended, ... shall be applicable to permanent stock savings and loan associations created or operating under the provisions of Act 227 of 1963 ... and such savings and loan associations shall enjoy the same powers and privileges and be subject to the same duties, restrictions and liabilities as other corporations except so far as the same may be limited or enlarged by the provisions of Act 227 of 1963."

RLF1 03182

0000054

5000285

Mr. Charles Hanley
 April 30, 1966
 Page 2

In short, an Arkansas chartered savings and loan possesses all powers afforded to stock corporations under the Arkansas Business Corporations Act unless the Arkansas Act 227 of 1963, as amended ("Act 227") prohibits the exercise of such powers. It is clear that an Arkansas corporation is empowered to create and issue a class of preferred shares of capital stock (see Ark. Stat. Ann. 645201 (1966) and 645202 (1966)). Therefore, an Arkansas chartered savings and loan possessing general corporate powers may authorize and issue a class of preferred stock unless Act 227 prohibits such a capitalization plan.

We find no provisions of Act 227 which expressly or impliedly prohibit the creation of a class of preferred stock by an Arkansas chartered savings and loan association. Rather, there are references throughout Act 227 implying that several classes, including a preferred class, of capital stock of an Arkansas savings and loan may exist. For an example, see Ark. Stat. Ann. 675816 (1963) which requires that the bylaws of the state savings and loan association describe the "several kinds or classes of shares, stock or certificates which it may issue". Other references to the existence of multiple classes of shares of an Arkansas savings and loan association may be found in Arkansas Statutes 675822 (1963) and 6751825 (1933).

Because the Arkansas statutes expressly give to an Arkansas chartered savings and loan all of the powers possessed by a corporation under the Arkansas Business Corporations Act, which powers include the power to create and issue a class of preferred capital stock, and because we find no express prohibition in Act 227 against the creation or issuance of such a class of preferred stock, we have concluded that Madison Guaranty's proposed capitalization plan is not inconsistent with Arkansas law. Should you require further information or assistance, please advise Hillary Rodham Clinton or Richard Massey of this firm.

Very truly yours,

Rose Law Firm

Rose Law Firm
 A Professional Association

RNH:mm

cc: Hon. Beverly Bassett

RLF1 03183

5000287

ROUTING SLIP

In reply and Kin. cy.

Re: Charles

DATE: May 6, 1988

Initial:

Initial Date:

REMARKS: Attached is a copy of a letter dated April 30, 1985 from the Rose Law Firm which sets forth Madison's plan to issue preferred stock and legal opinion that Madison can issue such preferred stock.

Perhaps one of our Attorneys should review this matter and issue a legal opinion regarding such and advise the Rose Firm and Madison.

I am of the opinion that our S.O.'s Statute only allows a stock association to issue "Capital or Permanent Capital" stock. Thus, it probably could be argued that such stock would be "Capital" stock under Section 53 of Act.

Action	Circulate	File	Information	Note & Return	Per Conversation	See Me	Signature
5-8-88							John H.

S. East on May 12, 1988. After review Madison will be informed of the results.

0000084

RLF1 03185

5000289

ARKANSAS



SECURITIES DEPARTMENT

71 CAPITOL MALL - 48-206

LITTLE ROCK, ARKANSAS 72201

TELEPHONE 501-471-1011

May 14, 1985

John:
Be sure we have
the 21st, 22nd, 23rd
returning

Paul
Chen

5-11

William Rodham Clinton
 Rose Law Firm
 120 East Fourth Street
 Little Rock, AR 72201

RE: Authorization and Issuance of a Class of Preferred Stock by
 Madison Guaranty ("Madison"), a Savings and Loan Association
 chartered under the laws of the State of Arkansas

Dear William:

I have reviewed your letter of April 30, 1985, regarding the proposed authorization and issuance by Madison of a class of non-voting preferred stock.

I agree with your analysis and conclusion of the question whether an Arkansas chartered savings and loan association may under Arkansas law create, authorize and issue a class of preferred stock. Arkansas law expressly gives state chartered associations all the powers given regular business corporations under the Arkansas Business Corporation Act, including the power to authorize and issue preferred capital stock. Further, there is no express prohibition against such action contained in the Arkansas laws governing building and loan and savings and loan associations. Accordingly, as the Savings and Loan Supervisor, I concur in your opinion that Madison's proposed capitalization plan is not inconsistent with Arkansas law.

Very truly yours,

Beverly Bissett
 BEVERLY BISSETT
 Savings & Loan Supervisor

BB/ps

COPY

RECEIVE

MAY 15 1985

ROSE LAW FIRM

A PROFESSIONAL ASSOCIATION

ATTORNEYS

120 EAST FOURTH STREET

LITTLE ROCK, ARKANSAS 72201

TELEPHONE (501) 375-9131

TELECOMEX (501) 375-1309

U. M. ROSE
1934-1913

May 14, 1985

GARLAND J. GARRETT
JERRY C. JONES
THOMAS P. THORPE
CAROL S. ARNOLD
JACKSON FARROW JR.
LES R. BALEDGE
JIM HUNTER BIRCH
R. DAVID THOMAS, JR.
DAVID L. WILLIAMS
CATHERINE LASSITER
MICHAEL T. DONOVAN
MICHAEL R. JONES
MARTIN S. THOMAS
SUSAN RALSTON HELCAN
RICHARD N. MASSEY
GARY N. SPEED

J. GASTON WILLIAMSON
CHARLES W. BAKER
OF COUNSEL

ELIUP CARROLL
DANE CLAY
JOSEPH GIBSON, JR.
ORGE C. CAMPBELL
ABERT C. RULE, III
ANLEY C. PRICE
WATT GREGORY, III
WILSON JONES
WCEHT FOSTER, JR.
JESTER L. HUBBELL
JEN W. BIRD II
LIAM C. BISHOP
LIARY RODMAN CLINTON
BRANTLY BUCK
H. ROSE
JANE DICKET
LIAM H. KENNEDY, III
NETHAN R. SHERWIN
VID A. KNIGHT
WALD H. CLARR

VIA HAND DELIVERY

Mr. Charles Handley
Arkansas Savings and Loan Supervisory Board
Number 1, Capitol Mall
Little Rock, Arkansas 72201

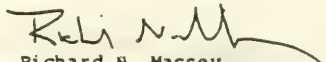
Re: Madison Guaranty Savings and Loan Association

Dear Mr. Handley:

I attach one original and five copies of an application to the Arkansas Savings and Loan Supervisory Board filed on behalf of the above-referenced association. Our firm's check for \$10.00, representing the filing fee for this application, is also attached.

Should you require additional information or clarification, please advise me.

Very truly yours,


Richard N. Massey

RNM:mm

Enclosures

0000084

APPLICATION TO THE ARKANSAS SAVINGS & LOAN
ASSOCIATION BOARD FOR APPROVAL TO ENGAGE IN
ACTIVITIES NOT SPECIFIED IN ARTICLE 5B
OF THE RULES AND REGULATIONS OF THE ARKANSAS SAVINGS &
LOAN ASSOCIATION BOARD

SUBMITTED ON BEHALF OF MADISON
GUYTON SAVINGS & LOAN ASSOCIATION, A SAVINGS AND LOAN
ASSOCIATION CHARTERED UNDER THE LAWS OF THE STATE OF ARKANSAS

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1. Statement of Application

This is an application to the Arkansas Savings and Loan Association Board ("ASLAB") for approval to engage in activities not specified by the Rules and Regulations of the ASLAB. This application is submitted pursuant to Article 2, Section B ["Rules of Practice and Procedure"] of the Rules and Regulations of the ASLAB. The full name and address of the applicant is Madison Guaranty Savings & Loan, 16th and Main Streets, Little Rock, Arkansas 72202.

2. Statement of Facts

The facts upon which this application is based are as follows:

Madison Guaranty Savings & Loan Association ("Applicant") proposes to offer certain brokerage services through a second-tier service corporation, the capital stock of which will be wholly-owned by Madison. As a second-tier service corporation, the broker/dealer will provide the general range of brokerage services offered by other registered broker dealers. Such services will be offered primarily to customers of Madison. ~~Applicant~~ propose that the brokerage firm be permitted to engage in two particular categories of activities:

1. Execution, purchase, sale or redemption of equity and debt securities on behalf of and for the account of others;

RS 000634

2. Assisting other service corporations of Madison as well as entities unrelated to Madison in the implementation of private placement of securities. Such private placements would involve securities issued by entities related to Madison or affiliates thereof, as well as those issued by entities unrelated to Madison.

The brokerage firm will be staffed with at least two individuals who have passed all requisite examinations and who are thoroughly trained in rendering such services. It is anticipated that additional employees of the brokerage firm will receive appropriate training from the registered principals of the brokerage firm. Personnel of the brokerage firm may divide their time between their duties as savings and loan employees and those as brokerage employees.

The broker/dealer would comply and maintain compliance with all applicable state and federal regulations regarding the existence, continuing capital requirements, books and record keeping and employee qualifications applicable to all broker/dealers registered under state and federal law.

3. Answer Based on the foregoing facts and on the following discussion of applicable law, we have concluded that it is permissible for Madison to engage in the proposed brokerage activities.

a. The proposed activities are reasonably related to the activities of the association.

RS 000635

Brokerage activities are reasonably related to the existing powers of state associations, including trust powers. Although the investment powers of state associations have in the past been limited to residential mortgages, the investment power of state and federal associations have been enlarged and associations now may invest in broader classes of securities. Moreover, the marketplace has changed as much if not more than the powers of savings and loan associations in recent years such that investment in certain securities, and various derivative relationships that may attend such investments, are now considered customary consumer alternatives to traditional savings and borrowing products. Further, investments in securities may stimulate consumer saving and borrowing to a sufficient degree that they are similar in nature and purpose of more traditional depository products.

There is also a similarity between the proposed investment activities and state association's trust powers. Many trustees invest in debt and equity securities on behalf of trust beneficiaries. While the relationship of trustee and beneficiary and the brokering customer may differ significantly, investment securities for the account of customers is not unlike the purchasing and selling securities for a trust.

b. State chartered savings and loan institutions have general corporate powers, which include the power to engage in the proposed activity.

RS 000636

Arkansas Statutes Annotated 67§1864 provides:

Hereafter the Arkansas Business Corporation Act, Act 576 of 1965, as amended [§64-101 et seq.], shall be applicable to permanent stock savings and loan associations created or operating under the provisions of Act 227 of 1963, as amended [§§67-1801 - 67-1862], and such savings and loan association shall enjoy the same powers and privileges and be subject to the same duties, restrictions and liabilities as other corporations, except so far as the same may be limited or enlarged by the provisions of Act 227 of 1963, as amended. If any provision of Act 227 of 1963, as amended, conflicts with the Arkansas Business Corporation Act, the provisions of Act 227 of 1963, as amended, shall govern.

In short, unless specifically prohibited by Arkansas Act 227 of 1963 ("Act 227"), a state savings and loan association enjoys all powers afforded Arkansas corporations. Ark. Stat. Ann. 64§104 (1965) enumerates powers afforded Arkansas Corporations and specifically provides that corporations shall have the power:

...to acquire, by purchase, subscription, gift, will or otherwise, and to own, hold, vote, sell, mortgage, land, pledge or otherwise dispose of, and otherwise use and deal in and with any or all of the shares of other interests in, or obligations of, other domestic or foreign corporations or the obligations of any associations, partnerships or individuals, or any direct or indirect obligations of the United States or any government, state, territory, governmental district or municipality or of any instrumentality thereof.

State Savings and Loan Associations pursuant to Ark. Stat. Ann. 64§104 shall possess the power to invest and trade in equity securities. This power would include activities generally associated with the operation of a broker/dealer since a broker/dealer's principal activity may be described as the acquisition and disposition of equity or debt securities for its own account and for the accounts of others.

RS 000637

A state chartered savings and loan association possesses general brokerage powers, by virtue of the above-quoted statute, unless Act 227 specifically prohibits such activity. We find no provisions of Act 227 which prohibit brokerage activities by state chartered savings and loan institutions.

c. Federal savings and loan associations may engage in broker/dealer activity and state savings and loans have the power to adopt any business and practice authorized for a federal association.

Article 3 of the Rules and Regulations of the ASLAB state that state chartered savings and loan associations "...have the power to adopt any business practice, procedure or method or system authorized for a federal association doing business in this state."

Further, Article 3A of the ASLAB Rules and Regulations states:

It is the intention of the Arkansas Savings and Loan Association that within the limitations of the provisions of the constitution of the State of Arkansas not preempted by Federal law, state chartered savings and loan associations shall not operate at a competitive disadvantage with federal savings and loan associations and have the same rights, powers, privileges, benefits, immunities and exceptions ... as federal savings and loan associations in addition to those conferred by Arkansas law upon state chartered savings and loan associations. To this end under and pursuant to Section 58 of Act 227 of the Acts of Arkansas of 1963, as amended, ("the Act"), and all other powers conferred by the Act and Arkansas law the Arkansas Savings and Loan Association Board adopts for state chartered savings and loan associations all of the powers hereinafter set forth and further states that the board shall not disallow any of such powers within the meaning of paragraph 3 of Rule 3 of the Rules of the Arkansas Savings and Loan Association:

RS 000638

- (1) All powers granted to state or federal savings and loans associations by the Depository Institution Deregulations and Monetary Act of 1980 and all rules and regulations which have been issued pursuant thereto.
- (2) All other powers which may hereafter be extended to state or federal savings and loan associations by any rule or regulation which may hereafter be issued pursuant to the Depository Institution Deregulation and Monetary Control Act of 1980, as well as amendment which may hereafter be made to said act.

Therefore, under the rules and regulations of the ASLAB, a state savings and loan association should possess nor should it be denied those powers possessed by federally chartered savings and loan institutions.

In Federal Home Loan Bank Board ("FHLBB") general counsel opinion dated May 1982 (CCN 83011 Federal Banking Law Reporter) the FHLBB general counsel opined that it was permissible under applicable law for federal associations through service corporations to engage in brokerage and investment advisory activities similar to those for which approval of the ASLAB is sought by the Applicant. The rationale of the general counsel's opinion was that such brokerage activities were reasonably related to the existing powers of the federally chartered savings and loan associations.

In Federal Home Loan Bank Board release No. 81-208, dated April 23, 1981, the FHLBB amended its list of preapproved service corporation activities to include certain brokerage activities. By FHLBB Resolution No. 82-136 dated February 25, 1982 the FHLBB approved an amendment to its service

RS 000639

corporation regulations which permits savings and loan service corporations, to engage in brokerage activities and to organize, sponsor, operate, control or render investment advice and to underwrite, distribute or sell securities. In the preamble to this regulation the FHLBB recognized that competitive developments continue to evolve because of the innovative market-oriented approach of many depository and non-depository firms, clearly indicating that the traditional business of financial intermediation is changed. In this increasingly competitive financial services market, the FHLBB expressed its belief that there is need to consider allowing federal associations to have new and competitive opportunities to engage in activities not expressly permissible and to realize profits in new areas to bolster a return on traditional investments.

Thus, the FHLBB has found that federally chartered savings and loan associations may, in fact, engage in brokerage activities. In allowing federal associations to engage in such activities, the FHLBB expressly acknowledged that other depository institutions are allowed to engage in various brokerage activities and that to refuse to allow federal associations to engage in similar activities would put them at a distinctive competitive disadvantage in relation to other depository institutions.

RS 000640

The FHLBB's logic applies here. The Arkansas Savings and Loan Association Board should approve the proposed brokerage activities because failure to do so would place state associations at a competitive disadvantage in relation to federal associations, as well as to other depository institutions.

As quoted above, an express objective of the ASLAB is to grant powers to state associations which federal associations possess in order to prevent the state associations from operating at a competitive disadvantage.

4. Conclusion. In conclusion, applicant urges that its application to engage in brokerage activities be approved for the following reasons:

1. The brokerage activities are reasonably related to the activities of a state chartered savings and loan association in that state chartered savings and loan associations are currently empowered to invest, trade and market certain equity securities; and

2. State chartered savings and loans have been given general powers, which powers include the power to engage in brokerage activities; and

3. State chartered savings and loan associations by ASLAB regulations have been given the same powers as a federally chartered savings and loan associations, and federally chartered associations have the power to engage in brokerage activities; and

RS C00641


07302

4. Refusal to approve of such brokerage activities will place state chartered savings and loan associations at a competitive disadvantage in relation to federally chartered associations as well as other depository institutions.

5. Signature of Applicant. Madison Guaranty has caused this application to be filed with the Arkansas Savings and Loan Association Board this 14th day of May, 1985.

MADISON GUARANTY SAVINGS
& LOAN ASSOCIATION

By:


John Latham, Chairman
Chief Executive Officer

RS 000642

MEMORANDUM

TO: BEVERLY BASSETT
NANCY JONES

FROM: CHARLES F. HANDLEY

RE: Application by Madison Guaranty Savings and Loan Association, Augusta, Arkansas ("Association") to form a Second-Tier, Wholly-Owned Service Corporation which would engage in the Securities Broker-Dealer Business

DATE: MAY 22, 1985

Attached is a copy of the above application which was filed with our Department on May 14, 1985 by Mr. Richard N. Massey, Attorney at Law.

I have reviewed the application and have the following comments and recommendations:

1. ✓ The application is filed with the Arkansas Savings and Loan Association Board; however, since the application is for a second-tier wholly-owned service corporation, I think the application would be filed pursuant to Rule 7(3)(2) which requires that the application to be filed with and approved by the Arkansas Savings and Loan Supervisor.
2. ✓ They need to advise us of the name and address of the wholly-owned service corporation which will own all of the stock of new service corporation.
3. ✓ Will the new second-tier service corporation be a newly formed and capitalized corporation or will it be a purchase of the stock of an existing corporation?
4. ✓ If the new service corporation is an existing corporation, we need current financial statements, copies of the Articles of Incorporation and Bylaws.
5. ✓ If the new service corporation is to be formed, we need to be advised of the capitalization plan and have a copy of the Articles of Incorporation and Bylaws.
6. ✓ We will need current detailed financial statements on the wholly-owned service corporation which will own all the stock of the new service corporation to determine if the secured and unsecured debt limits which are set forth in Rule 7(3)(3)(ii) have not been exceeded. *Also - Service Corp. formed 5/14/85*

MEMO

MAY 22, 1985

PAGE TWO (2)

7. We will need current detailed financial statements on the Association to determine if the total aggregate outstanding investment in the capital stock, obligations or other securities of service corporations and subsidiaries and joint ventures thereof does or would not exceed the six (6%) percent of the Association's assets limitation which is set forth in Rule V(C).
8. Based on the net worth and liabilities as reflected in the Association's December 31, 1984 Audited Financial Statement, it appears that the Association does not meet the minimum net-worth requirements of Section 563.13 of the Federal Home Loan Bank's Regulations. The Association should file a copy of their March 31, 1985 quarterly minimum net-worth calculation and a plan to meet the minimum net-worth requirements if the calculation reflects a shortage. The December 31, 1984 Audit Report and a copy of Section 563.13 are attached.
9. A consent to examine agreement which is required by Rule V(D) will need to be executed and filed for the new service corporation. A sample of such an agreement is attached.
10. We will need to know the actual name of the new service corporation in order to see if the requirements which are set forth in Rule V(7) are met.
11. The application reflects that the Association's address is 16th and Main Streets, Little Rock, Arkansas. The Association's home office is in Augusta, Arkansas and the application should be amended to reflect such.

I am forwarding a copy of this memo to Mr. Massey for his review and comment.

Please advise of your opinions and recommendations.

Thank you.

CFH:js
Attachments

cc: Mr. Richard N. Massey ✓
Rose Law Firm
120 East Fourth Street
Little Rock, AR 72201

22 000594

A PROFESSIONAL ASSOCIATION
 ATTORNEYS
 20 EAST FOURTH STREET
 THE ROCK, ARKANSAS 7201
 TELEPHONE 901-379-0131
 TELETYPE 901-379-0131
 V - RCSE
 010-013

[illegible]

June 17, 1985

Greetings:

This letter is to respond to a memorandum dated May 22, 1985, from Mr. Charles Handley relating to the above-referenced application (the "Application"). Numerical references below relate to specifically numbered items in Mr. Handley's memorandum.

- RS 000545

7. Attached as Exhibit "C" are copies of Madison Guaranty financial statements as of March 31, 1985. As is evident from such enclosures, the total outstanding investment by Madison Guaranty in the capital stock, obligations or other securities of all service corporations, subsidiaries and joint ventures thereof does not exceed the limitation set forth in Rule V(C).

8. Attached as Exhibit "D" are copies of the Quarterly minimum net-worth calculation as of March 31, 1985. In order to meet the newly-imposed minimum net-worth requirements, Madison Guaranty proposes (i) to issue a new class of preferred stock (the issuance of which has been recently approved by the Arkansas Savings & Loan Supervisor), (ii) to engage in various property syndication projects to raise additional revenues, (iii) to continue its efforts to reduce operating expenses and to increase deposits, and (iv) to engage in other activities which management of Madison Guaranty Savings & Loan determines to be prudent in light of new net-worth requirements.

Please note that these enclosures indicate that deficiencies in Applicant's net-worth have gradually been reduced. The Applicant anticipates that no deficiency will exist in the near future.

9. An executed consent to examine agreement on behalf of Madison Financial Corporation has previously been filed with the Arkansas Securities Commission..

10. The actual name of the broker-dealer shall be Madison Investment Corporation.

11. The address of Madison is P.O. Box 537, Augusta, Ark. 72806.

With this response, Madison hereby amends the Application. Such Amended Application is attached immediately hereto. Given the immediacy of the need to implement steps to infuse capital into the Association, your prompt consideration of this Application will be appreciated. Should you have questions or additional comments, please advise me.

Very truly yours,

RS 000546

Richard N. Massey

Richard N. Massey

MEMORANDUM

TO: Beverly Bassett
Nancy Jones

FROM: Charles F. Hendley

SUBJECT: Application by Madison Guaranty Savings and Loan Association, Augusta, Arkansas ("Association") to form a Second-Tier, Wholly-Owned Service Corporation which would engage in the Securities Broker-Dealer Business

DATE: June 18, 1985

By the attached letter of June 17, 1985, Mr. Richard Massey, Attorney at Law, has replied to the comments and recommendations regarding the above application which were set forth in my memorandum of May 22, 1985.

After reviewing Mr. Massey's letter and the attachments thereto I have the following comments and recommendations:

1. Exhibit 3 is a May 31, 1985 Balance Sheet for Madison Financial Corporation but an income statement for Madison Financial Corporation was not filed. I feel that such an income statement should be filed.
2. In reviewing Madison Financial Corporation's May 31, 1985 Balance Sheet it appears that the Association's aggregate outstanding investment in the capital stock, obligations or other securities of service corporations and subsidiaries and joint ventures thereof as of May 31, 1985 would be as follows:

Investment in Whitener & Associates	\$ 105,000.00
Investment in Campobello	749,056.00
Notes Payable to Association	1,572,979.00
Capital Investment-Stock	<u>1,117,322.00</u>
Total	\$3,544,357.00

The Association should advise if the above schedule contains all the Association's investments in and loans to its service corporations, subsidiaries and joint ventures thereof, as of May 31, 1985. Also, the Association should advise if as of May 31, 1985 it has any outstanding loans to its joint venture projects of Campobello and Whitener & Associates. If there are any such outstanding loans we need to know the balance of each as of May 31, 1985.

RIC-039

We need a May 31, 1985 balance sheet on the Association in order to determine what is six (6%) percent of total assets as of that date.

6000179

Memorandum

June 18, 1985

Page 2

3. Exhibit D reflects that the Association did not meet the minimum net worth requirement of Section 563.13 of the Federal Home Loan Bank Board's Regulations by \$410,436.00 as of March 3, 1985, \$231,102.00 as of April 30, 1985 and \$136,471.00 as of May 31, 1985.

Attached is a copy of Bulletin No. 585-60 from the Federal Home Loan Bank of Dallas which sets forth the regulatory consequences of the failure of a FSLIC insured association to meet the net worth requirement.

One of the regulatory consequences which is set forth in this Bulletin is:

"An insured institution cannot make direct investments in service corporations, operating subsidiary equity securities or real estate without prior written approval of the Principal Supervisory Agent."

Based on the above I feel that the application cannot be approved until the Association has filed proof it has met the FHLB's minimum net worth requirement and even then our approval would need to be conditioned on also receiving the FHLB's Principal Supervisory Agent's approval.

4. In comparing the Association's March 31, 1985 Balance Sheet, Exhibit C, to the Association's December 31, 1984 Audited Financial Statements, it is noted that the March 31, 1985 Balance Sheet did not reflect the adjustments to Retained Earnings which were detailed and explained in Footnote 11 to the December 31, 1984 Audited Financial Statements.

I feel that the Association should explain why the March 3, 1985 Balance Sheet did not reflect these adjustments and file a copy of the CPA's schedule which explains these adjustments because these adjustments could greatly reduce the Association's net worth and thus increase the amount needed to meet the minimum net worth requirement.

5. It appears that the Association has already purchased and owns 100% of the stock of Thorne & Company, Inc., the proposed broker-dealer service corporation. The Association should advise if this is correct and if so, the price paid.

I am forwarding a copy of this memo to Mr. Massey for his review and comment.

Please advise of your opinions and recommendations.

Thank you.

RIC-0393

Attachments

5000184

cc: Mr. Richard N. Massey
Rose Law Firm

ROSE LAW FIRM

ATTORNEYS

20 EAST FOLWYN STREET

LITTLE ROCK, ARKANSAS 72201

TELEPHONE (501) 375-2131

TELECOMMER (501) 375-1009

U. S. ROSE
634-1913

July 10, 1985

WILLIAM C. CARROLL
W. JANE CLAY
E. J. GREGG, CHAIRMAN
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STANLEY C. RICE
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MICHAEL R. JONES
SUSAN RALSTON NELSON
RICHARD W. HANSETT
GARY N. SPEED
CHARLES W. BAKER
OF COUNSEL

Ms. Beverly Bassett
Ms. Nancy Jones
Mr. Charles Handley
Arkansas Securities Commission
#1 Capitol Mall - Rm. 4b-206
Little Rock, Arkansas 72201

RE: Application by Madison Guaranty Savings and Loan Association ("Madison") to engage in brokerage activities.

Greetings:

This is to respond to Mr. Charles Handley's memorandum dated June 18, 1985 addressing the above-referenced application. Numerical references in this letter correspond to those in Mr. Handley's letter.

1. Attached as Exhibit A are the most recent financial statements of Madison Financial Corporation ("MFC"), and such Exhibit includes income statements of MFC.
2. Attached as Exhibit B is a worksheet calculating all investments in MFC by Madison. As shown, all investments, direct or indirect, total \$3,915,616.
3. Attached, as Exhibit C, is a balance sheet of Madison as of May 31, 1985, showing total assets of \$66,160.
4. Mr. Handley's memo states that the application should be approved by the Federal Home Loan Bank ("FHLB") before there may be approval from the Arkansas Savings and Loan Supervisor, since the "direct investment" rule of the FHLB applies.

RS 000502

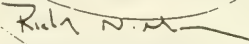
July 10, 1985
Page 2.

We submit, however, that the "direct investment" rule is inapplicable. 12 CFR 563.23(c)(2)(iii) states that "an insured institution cannot make direct investments in a service corporation..". By its terms, the rule does not apply to investments by a service corporation in the assets or capital stock of another unaffiliated corporation; rather, it applies to investments by an insured savings and loan into one of its service corporations. Attached as Exhibit D is documentation relating to acquisition, which documentation makes it clear that only MPC funds were used in the acquisition of the subject broker-dealer. Further, the agreement by which the broker-dealer was acquired (attached within Exhibit D) names MPC and not its parent, as the acquirer. Thus, the investment in question was one of the service corporation and not of Madison. Since the "direct investment" rule prohibits only investments by savings and loans in service corporations, it is inapplicable here, and prior approval by the FHLB is not required.

4. The March 31, 1985 balance sheet did not show the adjustments to retained earnings explained in Madison's December 31, 1984 Audited Financials because the audit report relating to the March 1985 financials was not completed until April, 1985 and appropriate adjustments to retained earnings were recorded in May, 1985.
5. MPC purchased 100% of the common stock of Thorpe & Co. for a total cash purchase price, including commissions, of \$6,000.

Should you have questions, please call Hillary Rodham Clinton or me at 375-9131. We respectfully request your prompt consideration of this matter.

Very truly yours,



Richard N. Massey

RNM/kg

1852K

RS 000503

~~MAVERLY BASSETT~~ ✓
NANCY JONES

FROM: Charles F. Handley

RE: Application by Madison Guaranty Savings and Loan Association, Augusta, Arkansas ("Association") to form a Second-Tier, Wholly-Owned Service Corporation which would engage in the Securities Broker-Dealer Business

DATE: July 17, 1985

By the attached letter of July 10, 1985, Mr. Richard Massey, Attorney at Law, has replied to the comments and recommendations regarding the above application which were set forth in my memorandum of June 10, 1985.

After reviewing Mr. Massey's letter and the attachments thereto I have the following comments and recommendations:

I am still very concerned about the adjustments made to the Association's net worth by the Association's CPA in the December 31, 1984 audited financial statements.

Attached is a copy of Footnote 11 to the audited financial statements which summarizes these adjustments. This footnote reflects a total negative effect of \$463,563.00 on the Association's net worth and caused the Association to have a net loss of \$74,046.00 for the year of 1984.

It appears that none of the \$463,563.00 adjustments are reflected in the Association's May 31, 1985 balance sheet which was filed because these adjustments appear to be prior year adjustments and would not be charged against 1985 income and expense items. Thus, the schedule below reflects that the Association's unadjusted capital accounts as of December 31, 1984, have not changed and remain the same in the May 31, 1985 balance sheet.

December 31, 1984 Balances

RIC-039348

Common Stock	(Unadjusted)	\$ 187,000.00
Paid in Surplus	(Unadjusted)	\$ 213,800.00
Retained Earnings	(Unadjusted)	\$ 205,711.00
Total Unadjusted Net Worth		\$ 606,511.00

Add: Net Profit for Period Per		
May 31, 1985 Income Statement		\$ 502,632.00

Total Unadjusted Net Worth		
as of May 31, 1985		<u>\$1,109,143.00</u>

Total Regulatory Net Worth		
Per May 31, 1985 Balance Sheet		<u>\$1,109,113.00</u>

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Page Two (2)

Some of the adjustments made by the CPA's may be due because the Association used approved regulatory accounting practices. If this is the case such adjustments would not need to be made to determine the Association's regulatory net worth; however, all other adjustments would need to be made in order to determine the regulatory net worth of the Association. Thus, in order to determine the Association's regulatory net worth and to know if the net worth requirements of our Act and the Federal Home Loan Bank Board have been met I feel that the following should be filed as soon as possible:

- (1) A copy of the CPA's December 31, 1984 adjusting entries which details and explains the reason for each adjusting entry.
- (2) A May 31, 1985 balance sheet which reflects all the required adjustments proposed by the CPA's.
- (3) A completed minimum net worth calculation form as of May 31, 1985.

As reflected in prior filings to this application the Association has not met the Federal Home Loan Bank Board's minimum net worth require by \$410,436.00 to \$186,471.00 and the above adjusted schedules will still probably not reflect that the Association has met these minimum requirements. Because acting as a broker/dealer is not a preapproved activity for either a State or Federal service corporation, acting as a broker/dealer could, at least in the beginning, place a drain on the Association's net worth because it would be a new, start-up operation in an area which the Association has little experience and a State association must at all times maintain Federal Savings and Loan Insurance Corporation Insurance, I would recommend that the approval of this application be conditioned on the Association meeting the net worth requirements of the FHLBB or at a minimum the Association filing a detailed and reasonable plan which reflects that these net worth requirements will be met within a very short time.

I am forwarding a copy of this memo to Mr. Massey for his review and comment.

Please advise of your opinions and recommendation.

Thank you.

Attachments

cc: Mr. Richard N. Massey
Rose Law Firm

RIC-039345

5000214

ROSE LAW FIRM

A "PROFESSIONAL ASSOCIATION"

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U. S. POST

1824-1913

July 25, 1985

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SUSAN RAULTON MCLAN
RICHARD W. HASSEY
GARY E. SPEED
J. GASTON WILLIAMSON
CHARLES W. BAKER
OF COUNSEL

Hon. Beverly Bassett
Ms. Nancy Jones
Mr. Charles Handley
Arkansas Savings & Loan Supervisory Board
No. 1 Capital Mall, Rm. 4b-206
Little Rock, Arkansas 72204

RE: Application by Madison Guaranty Savings and Loan
Association ("Madison") to engage in brokerage
activities.

Greetings:

This letter is responsive to Mr. Handley's July 17, 1985
memorandum respecting the above-referenced application.

Mr. Handley's memorandum states concern respecting auditors' adjustments to the regulatory net worth and income of Madison for the year ending 1984. I refer you to a letter from Mr. John Latham, Chairman of the Board of Directors and Chief Executive Officer of Madison and to a letter from Frost & Co., Madison's independent accountant, both of which letters are attached immediately hereto. As this correspondence explains in much greater detail, the difference between Madison's net worth as reflected in its audited financials and as reflected in its net worth reports, submitted to the Federal Home Loan Bank ("FHLB"), is a result of basic differences in the calculation of net worth under generally accepted accounting principles ("GAAP") and under Regulatory accounting principles ("RAP").

Simply put, differences exist between calculation of profit and net worth under RAP and GAAP. When Madison's independent accountants restate Madison's financial statements which were originally prepared consistent with RAP to make such statements consistent with GAAP, net worth, income and profits are subject to downward adjustments. This practice is not peculiar to Madison's financial statements alone; rather, it is common in the Savings and Loan industry. In this regard, please note attachments to Mr. Latham's letter describing the adjustments in question.

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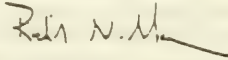
Page 2.
July 25, 1985

Mr. Handley's other concern is that expenses associated with Madison's implementation of brokerage activities will burden Madison's financial condition and potentially reduce its net worth. However, as stated in the above-referenced application and confirmed in the attached correspondence, Madison intends to use existing resources to implement such activities and only when it appears that the brokerage activities will generate significant profits will Madison commit new resources to such activities.

Madison anticipates that the proposed activities can only aid in the improvement of its financial condition and services provided to its customers. It believes it has provided all information to the Arkansas Savings & Loan Supervisor material to such Supervisor's decision with respect to such Application. In fact, Madison has complied with requests for information which had been previously provided to such Supervisor. Since the above-referenced application has now been pending for over two months, I respectfully request prompt consideration to Madison's Application.

Should you have additional questions or comments, please call the undersigned at 375-9131.

Very truly yours,



Richard N. Massey

RNM/kg

RLF1 03514



SECURITIES DEPARTMENT

#1 CAPITOL MALL - 48-206

LITTLE ROCK, ARKANSAS 72201

TELEPHONE 501-371-1011

MEMORANDUM

TO: BEVERLY BASSETT
NANCY JONES

FROM: Charles F. Hendley

DATE: July 27, 1985

RE: Application by Madison Guaranty Savings & Loan Association
("Association") to act as a Broker/Dealer through a Service
Corporation

I have reviewed the attached letter of July 23, 1985, from Mr. Richard Massey which was in reply to my memo of July 17, 1985.

Based on the information in this letter I am satisfied that the adjustments discussed in the Association's December 31, 1984 end-of-report would not decrease the Association's regulatory net worth, and the regulatory net worth of \$1,109,113.00 as reflected in the Association's May 31, 1985 Balance Sheet can be used to determine the Association's minimum net requirement. Thus, no adjustments would need to be made to the May 31, 1985 minimum net worth calculation filed by the Association (Exhibit "A"). This calculation reflects that the Association did not meet the Federal Home Loan Bank Board's minimum net worth requirement by \$186,471.00.

I am still of the opinion that the approval of this application be conditioned on the Association meeting the net worth requirements of the FHLBB or at a minimum the Association filing a detailed and reasonable plan which reflects that these net worth requirements will be met within a very short time. Also, we should obtain confirmation from the broker/dealer section that the broker/dealer has met also the requirements under the Securities Act and Rules.

RCC

The reply as to how the minimum net worth requirement would be met was:

5001

"As we stated in our previous response to Mr. Hendley's May 22, 1985 memorandum, Madison plans to meet its net worth requirements by implementing the following: (1) Issue preferred

Page Two (2)

stock (2) Engage in various property syndication projects to raise additional revenue (3) continue its effort to reduce operating expenses and increase revenues and deposits (4) engage in other activities which management of Madison determines to be prudent in light of new net worth requirements. In addition to the above Madison is planning to acquire a small financial institution whose net worth ratio is in excess of 8%."

I think that the filing of proof and/or detailed plan that the preferred stock issue and/or merger has been completed or will be completed in a very short time and that such has or will resolve any net worth deficiency would be sufficient proof to allow us to approve the application. However, I think we cannot condition our approval of the application on the proposals that the net worth requirements will be met by net profits generated from the proposed new business ventures and the reduction of expenses because whether such activities will generate profits, the amount of such profits and in what time frame cannot be known, proven or assured. This is like saying that we want to start an association by putting half of the required capital in the association and generate the other half of the required capital from net profits of the association.

I am forwarding a copy of this memo to Mr. Massey for his review and comment.

Please advise of your opinions and recommendations.

Thank you.

Attachment:

cc: Mr. Richard H. Massey
Rose Law Firm

REC-039381

50001

ROSE LAW FIRM

A PROFESSIONAL ASSOCIATION

ATTORNEYS

120 EAST FOURTH STREET
LITTLE ROCK, ARKANSAS 72201TELEPHONE (501) 375-9131
TELECOMMER (501) 375-1309U. N. ROSE
(1934-1913)

September 9, 1985

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GEORGE C. CAMPBELL
HERBERT C. MUELLER
STANLEY E. PRICE
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W. WILSON JONES
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MARTIN K. THOMAS
SUSAN BALSTON HELEAH
RICHARD N. MASSE
GARY N. SPEED
J. GASTON WILLIAMSON
CHARLES W. BAKER
OF COUNSEL

Ms. Beverly Bassett
Arkansas Savings & Loan Supervisor
Heritage Center West
Little Rock, Arkansas 72201

RE: Madison Guaranty Savings & Loan ("Madison") Application
to engage in brokerage activities

Dear Ms. Bassett:

This letter is submitted on behalf of Madison with respect to the above-referenced application. At our August 27, 1985 meeting, it was determined that Madison's application to engage in brokerage activities would be approved upon condition that Madison submit timetables of proposed activities which would serve to bring Madison in compliance with the minimum net worth requirements of the Federal Home Loan Bank ("FHLB") by December 31, 1985. Based on its June 30, 1985 net worth calculation, Madison's net worth was \$842,393 below that required by the FHLB. The following outlines two proposed transactions to be undertaken by Madison which, if consummated according to the terms described below, will serve to bring Madison into compliance with the FHLB's minimum net worth requirement.

Offering of Preferred Stock It is anticipated that Madison will effect an offering of Class A Preferred Stock, \$1.00 par value, at \$100 per share. If fully consummated, the proceeds of such offering will equal \$3 million, an amount well in excess of the amount required to bring Madison into compliance with the FHLB's minimum net worth requirement. It is anticipated that this offering will commence on or before October 1, 1985 and will close on or before December 1, 1985. Our firm is preparing appropriate offering materials and is implementing steps to procure all appropriate regulatory clearances.

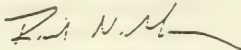
RLF2 00492

Ms. Beverly Bassett
September 9, 1985
Page 2.

Offering of Limited Partnership Units It is anticipated that a Limited Partnership for which Madison Financial Corporation ("MFC") will serve as general partner will effect an offering of units of limited partnership interest. MFC, as general partner, will receive revenues from the partnership in return for services rendered. Additionally, it will acquire an equity interest in the partnership. Such revenue and such equity interest will both contribute to the improvement of Madison's net worth. Precise amounts of revenue and interests are as yet unascertainable, since Madison is considering the possibility of partial financing of the project through the issuance of tax-exempt bonds. It is anticipated, however, that the precise term of this offering will be fixed in the near future and that the offering will commence in October, 1985 and will close in December, 1985. Our firm is preparing offering memoranda and implementing steps to procure regulatory clearance for the offering of limited partnership interests and bonds.

It is Madison's belief that should the transactions described above proceed according to current plans, Madison shall meet the FRB's minimum net worth requirement by December 31, 1985. Your consideration of this application has been appreciated. Should you require additional information respecting such application, please contact the undersigned.

Very truly yours,



Richard N. Massey

RNM/kg

RLF2 03493

To: Beverly

From: Charles

RE: Madison S & L's Application
to engage in Brokerage
Activities

Date: Sept. 12, 1985

Write letter to Mary-
dated approximately 9/20/85

I have reviewed Mr. Madison's letter of 9-9-85 regarding the above application and the attached copies of Madison's 6-30-85 net w/ with calculation and financial statements.

Madison's deficiency in net worth required by the FHLBB has increased greatly since March 31, 1985. As of 6-30-85 the deficiency was \$842,393.00

At a minimum I think we should condition our approval of the application on the following:

5000278

RLF1 03174

1. Madison filing a document which reflect the exact terms and condition (rates, redemption terms, etc) of the preferred stock and that the Board of Directors and stockholders have approved this stock issue.

2. Opinion of Counsel that the preferred stock will meet all of the conditions is the Att. F & B B proposed rule so that ~~the~~ we will know that preferred stock can be included as a part of regulatory net worth.

3. Madison filing a statement which reflects that they are of the opinion that ~~the~~ the preferred stock issue can be ~~successfully~~ successfully completed within the time period as stated.

If you have any questions or need the prior filings in this matter, please let me know.

Attachments:

RLF1 03175

5000279

October 17, 1985

Mr. Richard N. Massey
Rose Law Firm
120 East Fourth Street
Little Rock, AR 72201

RE: Madison Guaranty Savings & Loan ("Madison") Application
to Engage in Brokerage Activities

Dear Mr. Massey:

In response to your letter of September 9, 1985, Madison's request to engage in securities brokerage activities was approved as of September 20, 1985. You will recall from our meeting on August 28, 1985, that such approval was conditioned upon Madison's meeting the Federal Home Loan Bank Board's minimum net worth requirement by December 31, 1985. Please keep us informed as to the progress of Madison's efforts to achieve such compliance.

Very truly yours,

SEYMOUR BASSETT
Securities Commissioner

33/ps

0000084

RLF1 03178

5000282

ARKANSAS



SECURITIES DEPARTMENT
HERITAGE WEST BUILDING, THIRD FLOOR
201 EAST MARKHAM
LITTLE ROCK, ARKANSAS 72201

TELEPHONE 501-371-1011

December 9, 1985

Mr. Richard N. Massey
Rose Law Firm
120 East Fourth Street
Little Rock, Arkansas 72201

Re: Madison Guaranty Savings & Loan Association ("Madison")

Dear Mr. Massey:

Please advise the Department of the progress and current status of Madison's \$3 million preferred stock issue and steps taken to meet the Federal Home Loan Bank Board's minimum net worth requirement. Since the Department has not yet received a filing for the preferred stock issue, we are concerned about the ability of Madison to complete the sale of such stock and meet the minimum net worth requirements of the Bank Board by December 31, 1985, as earlier agreed.

Thank you .

Cordially,

BEVERLY BASSETT
Savings & Loan Supervisor

Charles

BY: CHARLES F. HANDLEY
Financial Examiner Supervisor

CFH/kmg

RS 000648

CONFIDENTIAL

December 18, 1985

Ms. Beverly Bassett
Mr. Charles Handley
Arkansas Securities Department
Heritage Center West
Little Rock, Arkansas 72201

RE: Madison Guaranty Savings and Loan ("Madison")
application to engage in brokerage activities
("Application")

Dear Ms. Bassett and Mr. Handley:

This is responsive to your letter of December 9, 1985 in which you requested information as to steps taken by Madison to improve its net worth.

Property Syndication

In addition to the plans previously disclosed to finance the development of certain property owned by Madison through the offering of units of limited partnership interests, Madison has determined that such development must also be funded by the issuance of exempt bonds. The issuance of such bonds must be preceded by the formation of an improvement district, which formation and the statutory waiting periods, will prevent the possibility of offering either the bonds or the units of limited partnership interests until early 1986. The decision to finance the development of the subject property through such methods was based on estimates of development costs and anticipated offering proceeds which were not available to Madison at the time the Application was approved.

RS 000646

CONFIDENTIAL

Ms. Bassett, Mr. Handley
December 17, 1985
Page Two.

Preferred Stock Offering

Due to prospective changes in federal tax laws and related reasons, the offering of Madison preferred stock has been delayed. It is anticipated that an offering of Madison's preferred stock will commence during the first quarter of 1986, should the economic environment be favorable to such an offering at that time.

Proposed Debt Offering

Madison is currently considering an offering of subordinated debt, which debt would be structured to meet the newly-imposed regulations of the Federal Home Loan Bank ("FHLB") allowing such debt, or the proceeds from offerings thereof, to be included in the net worth calculations of subject savings and loans. It is anticipated that Madison's offering of subordinated debt will commence during the first or second quarters of 1986.

Depending upon the success of any or all of the three offerings described above, Madison management may choose to modify its current plans and commence an offering or offerings of a structure or structures unrelated to those described above.

Madison acknowledges that it has not met the FHLB's minimum net worth requirements, and that the successful implementation of steps which would satisfy such requirements was a condition to your approval of the Application. Thus, Madison hereby undertakes that it will not engage in brokerage activities until it has taken affirmative steps to improve its net worth position and until it has received approval from you with respect to such activities.

If you require further information, do not hesitate to contact me.

Very truly yours,

Richard N. Massey

RNM/kg

RS 000647

BOARD OF DIRECTORS MEETING AT THE FEDERAL HOME
LOAN BANK OF DALLAS, JULY 11, 1986, 10:00 A.M.

Attending: Rolf Coburn, Beverly Bassett, Board of Directors
of Madison Guaranty, Walter Faulk, Charles
Hanley, Bob Young, Larry Staton, Karen Bruton,
Chip Kiesweter, Jim Clark, two assistant
examiners, John Selig, and Breck Speed

Faulk:

There will be a cease and desist order. There might
be room for a little bit of negotiation, but he didn't see
much room for change. He said the institution will change
today.

Faulk identifies business problems:

- (1) Net worth of institution is \$1.6 million short
of regulations.
- (2) He is concerned that the institution is growing
too fast.
- (3) The nature of the growth troubles him. There
are no real estate feasibility studies. A supervisory
appraisal has been ordered. The supervisory appraisal
probably will result in the insolvency of the institution.
- (4) Accounting. Faulk outlined several accounting
problems, including not cancelling profits for sale when the
loans have been bought back, conflicts with the Association's
accountant, documentation of loans, loan underwriting, the
suspicious use of loans instead of direct investments.
- (5) The manner of compensation to Jim McDougal and
John Latham may have led to the problem. The overall incomes
of McDougal and Latham are excessive for size and problems of
the Association. Young's compensation is tied to income he
can find on the books, and this invites abuse.

LATHAM:

Greg Young does not have a contract, but a job
description.

HCOSI

KFO435

FAULK:

Faulk asked again for all employment contracts.

(6) Misuse of position and usurpation of corporate opportunities. The Association has been making sales to people without financial wherewithal that are characterized "straws" as to generate business. Faulk questioned the payments to the companies noted on the June 19 letter. He questioned if payments are for real work.

Faulk stated in a general way that it seems if purpose of the Association is to generate income to certain insiders, such as Latham, McDougal, Henleys.

Inaccurate and unsupported appraisals and projections lead to early bad decisions. Better lots at the developments have been sold first, sales have occurred to straws, resale of property has occurred to add false value (land flips), and there has been failure of proper oversight by the Board of Directors.

False and inaccurate information has been given to examiners. There have been efforts by management, particularly Latham, to disguise information.

Day-to-day operations are unprofitable. Young's analysis, showing that the Association has reached a break-even point, assumes growth and relies on misbooked land sales. Faulk emphasizes that it is unusual to act on interim information, but there is serious concern. He calls to the Board to step up review. He indicates he thinks that net worth is fabricated. The cost of money of the Association is way above peer group.

Faulk suggested to the Board that they take the message to the McDougals that the McDougals get out of the business. He suggested that the Board request the resignation of Latham and elect a two-person committee to run the Association while a search is conducted for a new chief executive officer.

He also said that a Section 407 investigation will be started into whether any "shenanigans" are going on in the developments.

SELIG:

Selig agrees that this is not the time or the place to address specific issues. He asked to address general ^{ACCS}

problems identified and offer solutions. Faulk declines to listen and tells the Board and the attorneys to review the cease and desist order offered them.

THE FEDERAL HOME LOAN BANK OFFICIALS LEAVE THE ROOM.

The Board decides that it cannot sign the document because it is 19 pages long, and they have no time in which to review and analyze the proposed cease and desist order.

RECONVENE

(John Selig is absent, speaking with Karen Bruton in another office.)

FAULK:

Faulk enters and tells Board he likes to talk to Board without attorneys and asks for comments.

STEVE CUFFMAN:

Steve Cuffman says Board has been active, well-intentioned, he notes that there has been a growth in net worth, he is concerned about the growth of the Association, he felt the service corporation was good because it was profitable. Steve said he relied in past on Jim McDougal to run the service corporation.

Sarah Hawkins states that spends her time on regulatory aspects of the Association. She sees some improvements in internal controls, but also sees concern in internal controls. Reworking old problems of the Association has taken time.

FAULK:

How much control has Board had over the service corporation. He questioned the Board's knowledge of the ownership. He asked what the Board's opinion of the ownership was. No one on the Board expressed an answer to his questions on the ownership.

Faulk indicated that he doesn't mind going along with well-documented and open transactions, but the transactions occurring in the Association today are not open or documented. HCCS

He never likes to see compensation based on a percentage.

(Selig and Bruton return.)

FAULK:

Problem is ownership and asset quality.

SELIG:

Selig outlines alternatives. He offers to terminate the employment of the McDougals and make Jim McDougal a consultant. He offers to reconstitute the board of the service corporation to mirror that of the Association.

FAULK:

Take the message back to Little Rock that the McDougals cannot be consultants.

SELIG:

Selig offers voting trust.

FAULK:

He wants total removal of McDougals and Bill Henley.

SELIG:

Selig says Henleys are needed to sell the service corporation's properties.

FAULK:

Faulk asks Board (in a slanted way) if they would rather have third party do appraisal.

Faulk says that he thinks the Association is beginning to fizzle (fizzle is a play on the FSLIC acronym). He says he sees this now as an FSLIC run project. He wants to see what assets there are. The Federal Home Loan Bank has lost faith in the present management.

ROCKS

The banks wants a new board, manager, and asset evaluation.

SELIG:

The Board generally recognizes problem and would have no trouble with a majority of the contents of the proposed cease and desist order.

On appraisals, FSLIC gets to sign off on choice of person.

FAULK:

Latham must be terminated. He may continue as an employee for 45 days, but he can no longer be chief executive officer or chairman.

STEVE CUFFMAN

He would support third party appraisals.

SELIG:

He needs time to review the proposed cease and desist order for two reasons. He needs time to understand all 19 pages of the cease and desist order, and he needs time to see if the time-frames contained within the cease and desist order can be met.

It is decided that Wednesday, July 16, is the deadline for answer on whether the Board of Directors will accept the cease and desist order.

FAULK:

By Wednesday, a search committee should be formed, the McDougals situation resolved, and the appraisers named.

SELIG:

The June 19 letter listed several prohibited activities. Along with Sarah Hawkins, John Selig discusses several of the specific prohibitions. The prohibition

ROGSI

contained in number 4 (c) of the June 19 letter concerning 90 percent loans can be modified as long as the loans have no insider relationship, a proper appraisal has been done, the borrower is credit-worthy, and the new compensation schedule proposed by the Board will be used.

ROLF COBURN:

He has concern with the marketability of the deeds at the Campobello project. Examiner Clark has not received a copy of the title insurance policy for the property as yet.

FAULK:

He restates concern about the availability of information. There have been problems in the past, and any future problems with information should be referred to the two-man committee to be formed from the Board of Directors.

SELIG:

He notes that Madison Marketing and Madison Real Estate are not included in the contents of the cease and desist order.

FAULK:

Madison Real Estate may continue operating as long as no commissions are paid to the Henleys or the McDeugals.

SELIG:

John questioned the prohibition against doing business with Castle Sewer and Water. He indicated that it was necessary to do business with Castle Sewer and Water so that Castle Grande Estates can be a viable development project. He indicated that an agreement was being negotiated at the time but was not consummated.

FAULK:

Faulk said that they would consider any such agreement after the examiners had a chance to look at it.

HOCSX

SARAH HAWKINS:

She saw no reason why the Wilson company should be included on the list of prohibited companies.

CLARK:

The Wilson company had a loan from Madison Guaranty and endorsed the check representing the proceeds of that loan back to the service corporation.

SARAH HAWKINS:

Sarah strongly disagrees with his conclusion. .

MEETING BREAKS UP

PRIVATE MEETING AT WHICH STEVE CUFFMAN, JOHN SELIG, ROLF COBURN, WALTER FAULK, KAREN BRUTON, BEVERLY BASSETT, BRECK SPEED PRESENT

FAULK:

Faulk said he doesn't want to be so strict as to close the Association. He finds it hard to believe that there is no number two man in place, and the Association would fold without Latham. He indicated that he doesn't have any faith in Latham anymore.

STEVE CUFFMAN:

Steve reaffirms his faith in Latham. He states that there is no depth in management at the Association.

FAULK:

He says to use legal counsel. Latham is out. Latham was chief executive officer, and he must take responsibility.

He suggests a new board of directors be put in place.

You may have to pay extra for a new CEO that can do the job, but it is worth it.

RCG33

SELIG:

Questions the time limit on the net worth compliance.

FAULK:

, We plan to shrink the Association to the net worth limit. After that, grow at a slower rate. A new audit must be done because Jim Alford of Frost & Company is not independent.

SELIG:

Takes exception and questions when loans to Alford were made. If made after exam, then there should have been no conflict.

KAREN BRUTON:

We are not going to discuss the facts.

BEVERLY BASSETT:

She first got truly concerned about the Association when Sarah Hawkins called and asked for the Campobello files. Sarah said she couldn't find the Association's files. Beverly stated that she was not entirely convinced some files are not hidden.

RCCS

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SHOW: NEWS 12:37 pm ET

April 28, 1994

Transcript # 588-5

TYPE: Package

SECTION: News; Domestic

LENGTH: 1165 words

HEADLINE: Whitewater - A Changing Tide? - Part 1

GUESTS: Rep. JIM LEACH (R-IA); Pres. BILL CLINTON; JAMES McDOUGAL, Fmr. Clinton Business Partner; WALTER FAULK, Fmr. Federal Regulator; Rep. LEACH;

BYLINE: JOHN CAMP

HIGHLIGHT: Three key regulators dispute allegations that, when he was governor of Arkansas, President Clinton engaged in improprieties that kept Madison Guaranty Savings and Loan afloat after it was broke.

BODY: REID COLLINS, Anchor: For two years, as candidate and President, Bill Clinton has been under a barrage of allegations and revelations about Whitewater, that 16-year-old real estate deal involving the Clintons and the owner of a failed savings and loan company. In recent weeks, the White House has tried to reverse the tide of Whitewater with news conferences by both the president and first lady and the release of tax returns and Whitewater documents. One of the more serious questions- did Bill Clinton, as Arkansas governor, abuse his powers by helping keep that troubled S&L open, costing taxpayers millions? A CNN special assignment investigation in News Hour today provides some answers. John Camp reports.

JOHN CAMP, Senior Correspondent: It has been a news media pack attack. Whitewater- story after story on television network newscasts, in the nation's leading newspapers, a favorite topic on talk radio and in congressional speeches.

Rep. JIM LEACH (R-IA): In a nutshell, Whitewater is about the arrogance of power.

CAMP: Allegations that as Arkansas governor, Bill Clinton abused the powers of his office, charges linked to a failing savings and loan company that cost U.S. taxpayers millions.

Rep. LEACH: If you have a savings and loan kept in existence for a long period after its insolvency-

CAMP: But who was responsible for keeping the S&L open after it was broke? In this CNN special assignment investigation, we interview for the first time on television three key regulators, who made many of the decisions leading to the closing of Madison Guaranty Savings and Loan, an Arkansas S&L owned by a friend and business partner of then-Governor Bill Clinton. They dispute allegations that Mr. Clinton could or did do anything to keep Madison open.

But first, some background about the controversy. Whitewater is the catch-all title for a story with many twists and turns. The suicide of White House official Vincent Foster, the commodities trading profits of Hillary Rodham Clinton, charges of cover-up, grand jury subpoenas for top administration officials, the White House on the defensive-

Pres. BILL CLINTON: On my wife, I have never known a person with a stronger sense of right and wrong in my life.

CAMP: President Clinton providing answers that raise even more questions.

Pres. CLINTON: We in fact lost some \$20,700 less than the lines report indicated because that loan came from a different place.

CAMP: Congressman Jim Leach of Iowa-

JIM LEACH (R-IA): -awkward kind of scandal

CAMP: -ranking Republican on the House Banking Committee-

Rep. LEACH: -to seek public accountability.

CAMP: -has led the Whitewater charge.

Rep. LEACH: It all began in the late 1970s when a budding S&L owner named James McDougal formed a 50-50 real estate venture with a young politician, the then-attorney general of Arkansas, Bill Clinton.

CAMP: The real estate venture was called Whitewater Development, described as a sweetheart deal for Bill and Hillary Clinton. But loan documents show they were on the hook for more than \$200,000.

JAMES McDOUGAL, Fmr. Clinton Business Partner: Well, they didn't get a sweetheart deal. They were in a business arrangement where they were-owned notes and mortgages which made them liable for \$250,000 or more.

CAMP: Whitewater was a financial flop, although the amount of the Clintons' losses are in dispute. Later, in 1982, unrelated to Whitewater, Jim McDougal bought Madison Guaranty, which financed other unsuccessful real estate deals involving Arkansas political figures, but not the Clintons. Madison collapsed in the mid-1980s, leaving American taxpayers with a \$68 million tab and questions about Bill Clinton's role. Questions of whether Madison Guaranty funds were diverted by Jim McDougal to pay Whitewater debts or funneled into Mr. Clinton's gubernatorial campaign. A special counsel and a small army of lawyers and investigators are looking into those and other charges.

One of the most damaging, directly involving Mr. Clinton, is the allegation he helped keep Madison Guaranty open, long after it was broke, as a favor for his friend and business partner. Behind this central charge are specific allegations of favors Mr. Clinton did in return for Jim McDougal's generosity.

Allegation #1- that then-Governor Clinton appointed a state regulator friendly to Madison Guaranty, Beverly Bassett Schaffer, who kept Madison open despite the fact it was insolvent at the time.

Allegation #2- the regulator approved a highly unusual financing plan for Madison Guaranty- a plan proposed by Hillary Clinton's Rose Law Firm.

Allegation #3- that the newly-appointed regulator had a conflict of interest because she previously did legal work for Madison and would have known of its financial problems.

Our investigation deals with all these allegations.

WALTER FAULK, Fmr. Federal Regulator: To my knowledge, there is nothing that the governor of the state of Arkansas did or could have done that would have delayed the action on this institution.

CAMP: Walter Faulk is a former senior vice president with the Federal Home Loan Bank Board in Dallas, Texas. He supervised the investigations of

Arkansas S&Ls in the mid-1980s. Faulk says the federal government, not the state of Arkansas, made the ultimate decision to close Madison Guaranty because its deposits were federally insured.

[interviewing] Did or could the state of Arkansas keep Madison Savings and Loan open?

Mr. FAULK: No, no.

Rep. LEACH: Well, that would be his judgment.

CAMP: But it's the judgment of a top federal official whose job it was to make these decisions.

Rep. LEACH: This institution was state chartered, state regulated- the Federal Home Loan Bank Board did oversee, in a distant way, this institution and forced its closing in the end. But it could have been closed by state authorities.

Mr. FAULK: Well, I think it would be a rather foolish move on their part because you would raise concerns within the community, you could have runs on that thrift and other thrifts and who would pay off the depositor? }

CAMP: The deposits were supposed to be guaranteed by FSLIC, the Federal Savings and Loan Insurance Corporation, but in the mid-'80s, FSLIC was almost broke and Madison Guaranty was a small fish in the ocean of S&L failures.

Mr. FAULK: There's problems in relation to some of the \$2 billion - \$3 billion thrifts that we had in the district would not pale in comparison.

CAMP: In a moment, we deal with allegations that then-Governor Clinton took steps to help Madison Guaranty.

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SHOW: NEWS 12:44 pm ET

April 28, 1994

Transcript # 588-6

TYPE: Package

SECTION: News; Domestic

LENGTH: 1368 words

HEADLINE: Whitewater - A Changing Tide? - Part 2

GUESTS: BEVERLY BASSETT SCHAFFER, Former Arkansas Securities Commissioner; Rep. JIM LEACH (R-IA); WALTER FAULK, Fmr. Federal Regulator; Rep. LEACH; Ms. SCHAFFER; Mr. FAULK; Ms. SCHAFFER; Mr. FAULK; Ms. SCHAFFER; CHARL

BYLINE: JOHN CAMP

HIGHLIGHT: Former Arkansas Securities Commissioner Beverly Bassett Schaffer refutes allegations that she kept Madison Guaranty Savings and Loan afloat after it was insolvent. Iowa Rep Jim Leach still contends she did.

BODY: BOBBIE BATTISTA, Anchor: The Whitewater controversy. For two years, one allegation after another. In this CNN special assignment report, a former federal regulator has disputed that Bill Clinton as governor of Arkansas could have done anything to help a failing S&L owned by a friend and business partner. Our report continues with correspondent John Camp.

JOHN CAMP, Senior Correspondent: We begin with the first of three specific allegations about then-Governor Clinton's role in helping Jim McDougal's Madison Guaranty- the charge that he appointed a state regulator to prolong the life of the failing company.

BEVERLY BASSETT SCHAFFER, Former Arkansas Securities Commissioner: It's just mind-boggling.

CAMP: This is the regulator accused of keeping Madison open.

Ms. SCHAFFER: I was totally unfamiliar with Whitewater Development Company and I was not aware that the Clintons had a business partnership with Jim McDougal.

CAMP: In 1985, 32-year-old Beverly Bassett Schaffer was working as a securities lawyer for one of Little Rock's biggest law firms. Mrs. Schaffer, who once worked for Mr. Clinton while he was attorney general, says she sought the securities commissioner job through her brother, a long-time Bill Clinton friend. Today, Mrs. Schaffer is caught in the middle of Whitewater-

Rep. JIM LEACH (R-IA): The S&L was allowed to operate, despite being insolvent for an extended period.

CAMP: -accused of compromising her integrity by not doing her job in 1985.

[interviewing] Was Madison insolvent?

Ms. SCHAFFER: Madison was not insolvent. True, they needed capital and they needed to boost their net worth.

CAMP: This federal examination report and other federal and state documents we inspected confirm that Madison was not insolvent in 1985, although federal regulators were closely monitoring it, under what is known as a supervisory agreement.

WALTER FAULK, Fmr. Federal Regulator: My recollection is that this institution for some time, while not reporting insolvency, failed to meet its regulatory required capital requirements and therefore, that's what led to some of the actions in the entering of supervisory agreements and that type of action in the past.

CAMP: And by April, 1985, another federal official expressed general satisfaction with Madison's business plan.

[interviewing] Do you have any evidence, any suggestion, that the state of Arkansas did anything other than follow its own procedures and follow the procedures as outlined by the Federal Home Loan Bank?

Rep. LEACH: When the Federal Home Loan Bank determined that the institution was- should be closed, it was closed.

CAMP: No, sir. It was not. Determination of insolvency, as would meet the

guidelines of the federal government, were met in 1987. It was not until 1989 that the federal government moved to close the institution. But I'm trying to determine who was at fault here?

Rep. LEACH: Oh, if you say who's at fault, I think you have a combination of people at fault. You have the state, you have the federal government, all of whom were slow.

CAMP: In fact, it was the Congress that dragged its feet in the mid-1980s, delaying an S&L bailout measure that would have sharply reduced the taxpayers' tab.

Rep. LEACH: If you'd had a little earlier funding, the losses would not have been as heavy, but this applied across the board to all institutions. This institution lost as high, if not a higher percentage of its deposit base, of any institution in the United States of America.

CAMP: But that would not have been the case if they had followed the recommendation of the Arkansas officials.

Rep. LEACH: This institution was closed at the request of the United States government, not at the request of Arkansas officials.

CAMP: But according to this December, 1987, letter, 15 months before the Feds closed Madison Guaranty, it was Beverly Bassett Schaffer that urged FSLIC, the Federal Insurance Agency, to take over the troubled S&L, saying 'Your prompt attention to this serious matter is requested.'

Ms. SCHAFFER: It would have been an irresponsible act on my part to go close a state-chartered savings and loan, knowing that the FSLIC had said, 'We don't have any money right now to pay off the depositors.'

CAMP: At the time of Mrs. Schaffer's letter, this audit report estimated Madison was about \$10-1/2 million in the hole. By 1989, when Madison was finally closed, losses had climbed to \$15 million. Since then, the federal government has sold off Madison's holdings at bargain basement prices and taxpayer losses have soared to \$63 million today.

Mr. FAULK: Had it been timely acquired, it's my opinion that whatever the ultimate loss is, it could greatly have been curtailed, by the taking of more timely action.

CAMP: So this would have been a federal problem, not a state problem.

Mr. FAULK: That's correct.

CAMP: And what about Beverly Bassett Schaffer's role?

Mr. FAULK: She acted responsible at all times and I don't see how anyone could say, that knew the history of this case, or who would look into the history of the case, could say that she acted irresponsible or delayed or drug her feet in any manner whatsoever.

CAMP: Next, Whitewater allegation #2, that Beverly Bassett Schaffer as Arkansas' top banking regulator, approved what news reports have repeatedly described as a 'novel' financing plan to help Madison Guaranty- a proposal by Hillary Clinton's Rose Law Firm to sell preferred stock.

Ms. SCHAFFER: Selling stock to raise capital is done every day. I can't imagine suggesting that it's a novel proposal to issue stock to raise capital.

CAMP: In fact, documents show federal regulators knew about the stock sale proposal and hoped it would save Madison from collapsing.

Mr. FAULK: It wasn't unusual at all, I mean, in the national network of thrifts, you would find a lot of stock savings and loans.

CAMP: Mrs. Schaffer claims she never approved the stock proposal- only said it was legal under Arkansas law.

CAMP: Was there ever any direct contact by Hillary Clinton of your office?

Ms. SCHAFFER: She made one telephone call early in the process, probably some time after we had received their letter but before I wrote my letter to the Rose Law Firm. And it was a perfunctory, very brief, non-substantive conversation, basically consisting of 'We've sent something out there. We have a letter. Who should we work with?'

CAMP: This is the top state investigator who handled the request, Charles Handley, a 25-year regulator. He says he had no dealings with Hillary Clinton.

CHARLES HANDLEY, Arkansas Securities Dept.: No, never have met her personally.

CAMP: Nor, Handley says, was there anything unusual in the way Mrs. Schaffer handled Madison's problems.

Mr. HANDLEY: She didn't give favorable- favorable treatment to the savings and loans or Mr. McDougal. I think- I think she done her job.

CAMP: Although the stock proposal never received final approval, much has been made of this letter written by Mrs. Schaffer, a letter that began, 'Dear Hillary-.'

Ms. SCHAFFER: 'Dear Hillary.' I- I think so much- that's a red herring. People need to go read it and see that it's very businesslike, it addresses the question. There's nothing in there that says, 'How's Chelsea? It's nice to-' you know, '-it was good to see you and Bill last weekend.' There isn't any familiarity to it.

CAMP: In fact, documents show the Arkansas Securities Department refused to give Madison necessary authorization to sell stock unless it could raise enough money to meet federal requirements. This effectively killed Madison's proposal.

Ms. SCHAFFER: They were not very happy about it.

CAMP: When we come back, questions of conflict of interest.

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April 28, 1994

Transcript # 588-7

TYPE: Package

SECTION: News; Domestic

LENGTH: 653 words

HEADLINE: Whitewater - A Changing Tide? - Part 3

GUESTS: BEVERLY BASSETT SCHAFFER, Former Arkansas Securities Commissioner;

BYLINE: JOHN CAMP

HIGHLIGHT: Former Arkansas Securities Commissioner Beverly Bassett Schaffer refutes allegations she had a conflict of interest in scandals surrounding Madison Guaranty Savings and Loan and Whitewater.

BODY: BOBBIE BATTISTA, Anchor: In this CNN Special Assignment Report, we've dealt with Whitewater allegations that Bill Clinton, as Governor of Arkansas, did favors for a failing S & L owned by a friend and business partner. And with charges that an Arkansas regulator gave preferential treatment to Hillary Clinton's law firm. John Camp continues our report now, with a look at whether that same regulator should have been involved in Madison Guarantee matters.

JOHN CAMP, Senior Correspondent: At the center of Whitewater, charges of conflict of interest including an allegation against Beverly Bassett Schaffer, because she worked for a second law firm representing Madison Guarantee before becoming Securities Commissioner. But Mrs. Schaffer says she was only marginally involved in Madison's legal affairs.

BEVERLY BASSETT SCHAFFER, Former Arkansas Securities Commissioner: I wasn't privvy, as I said, to discussions that may have occurred in the law firm about Madison's regulatory problems or conditions, financial condition.

CAMP: Congressman Leach's staff alleges an internal memo she wrote when she worked for the law firm was a clear cut conflict because it dealt with a Madison financed project.

Ms. SCHAFFER: This was a narrow assignment with regard to this particular issue on a particular land sales transaction.

CAMP: The transaction involved the Jim McDougal backed Campabello Development off the Maine coast, a project blamed for many of Madison Guarantee's financial problems.

How well did you know Jim McDougal?

Ms. SCHAFFER: I've never met him. I've never had a phone conversation with him, received a letter from him or a memorandum. Nobody has called me and suggested that he knew me or that we had ever met. I don't know that we've ever been in the same room together.

CAMP: Beverly Bassett Schaffer has been trying to clear her name ever since the Whitewater controversy began.

Ms. SCHAFFER: It's very upsetting to me that the message that I got and I've gotten the last two years is, you can spend a lot of time making a record for yourself and having, building a good name, but you better not hope it counts for anything when it matters.

CAMP: Mrs. Schaffer says she is fully cooperating with Special Counsel Robert Fiske who is conducting a broad scaled investigation of the Whitewater Affair.

The Whitewater controversy, to a large extent, is about Arkansas politics and Beverly Schaffer and her husband, Archie, represent how small that political world is. He is a nephew of U.S. Senator Dale Bumpers and Chief Spokesman for Tyson Foods, Arkansas' biggest employer and a company involved in its share of controversies because of ties to Bill Clinton

What do you think about all this?

ARCHIE SCHAFFER: Well, I have for about 25 years been involved in politics and government and P.R. one way or another and I've never seen anything like it really.

Ms. SCHAFFER: Yeah, I don't like it, but tough. I mean, I, that's the way it is and Bill Clinton is President of the United States.

CAMP: And as President, Mr. Clinton has kept the controversy going with contradictory and sometimes confusing explanations about his actions as Arkansas governor.

But as our report has shown, there seems to have been little, if anything, he could have done to help the S & L of his friend and business partner, Jim McDougal. If he did not, that answers one serious Whitewater question.

But the Whitewater controversy has many facets and Special Counsel Fiske is faced with the job of answering the remaining questions. I'm John Camp, CNN Special Assignment.

7/2/86



Sam -

Madison Guaranty is in pretty serious trouble. Because of Bill's relationship w/ McDougal, we probably ought to talk about it. The meeting referred to in the attached letter has been moved up to July 11, 1986 and the FHLBB has asked me to be ~~at~~ at the meeting.

Please note that while all of the FHLBB restrictions in the letter are serious, #5 + 6 effectively put Madison out of business.

"Thank you for your support."

BEVERLY BASSETT
Securities Commissioner

DB

CCBW-884.



FEDERAL HOME LOAN BANK OF DALLAS

Office of the Supervisory Agent

June 19, 1986

FHLBD No. 7601

Board of Directors
Madison Guaranty Savings and Loan
Association
P. O. Box 1583
16th and Main Streets
Augusta, Arkansas 72203

Dear Board Members:

An examination of Madison Guaranty's financial condition and operating practices is currently being conducted by examiners representing the Federal Home Loan Bank Board. This examination is not yet complete. However, it has already disclosed matters of serious supervisory concern including unsafe and unsound practices, instances of noncompliance with the July 19, 1984 Supervisory Agreement and regulatory violations. Accordingly, we are scheduling a board of directors meeting for July 24, 1986 at 1:30 p.m. to be held at the Federal Home Loan Bank of Dallas, 500 East John Carpenter Freeway.

Furthermore, as a result of this office's ongoing monitoring of Madison Guaranty, we have noted your association's continued failure to comply with the minimum net worth requirement of Section 563.13 of the Insurance Regulations. At April 30, 1986, your association's regulatory net worth totaled \$2.6 million, some \$1.65 million short of its minimum requirement.

As you know, the July 19, 1984 Supervisory Agreement by and between this office and your association requires you to take actions to effect Madison Guaranty's compliance with the net worth requirement of Insurance Regulation 563.13. However, during 1985, Madison Guaranty's liabilities grew 120% from \$48 million to \$105.8 million. In the first four months of 1986, liabilities grew 25% (annualized) to \$115 million. This recent growth by your association appears totally contradictory to your July 19, 1984 commitment to bring Madison Guaranty into net worth compliance.

As a result of the seriousness of the preliminary results of the examination in progress at your institution, we find it necessary to take immediate supervisory action. Accordingly, pursuant to Insurance Regulations 563.13(d), we hereby direct you to take the following corrective actions until the aforementioned meeting is held and/or you receive further notice from this office:

CCBW-885.

Madison Guaranty Savings and Loan
Association
Augusta, Arkansas
June 19, 1986
Page 2

CCBW-886.

- 1) The association shall upon receipt of this letter immediately adjust its savings rates to ensure that the rates it pays to attract savings deposits are not in excess of the rates paid on comparable deposits by competing institutions in the same market. Furthermore, until the July 24, 1986 meeting, the association shall immediately reduce its growth to ensure that it will not increase its liabilities in an amount that is in excess of the amount of interest credited on savings accounts and the amount necessary to fund any loans-in-process obligations or legally binding commitments existing as of the date of this letter.
- 2) Madison Guaranty shall comply fully with the restrictions and requirements of Insurance Regulation 563.9-8. Accordingly, among other things, the association may not make any additional "direct investments", as that term is defined in Section 563.9-8(b)(1) of the Insurance Regulations, without the prior written approval of this office.
- 3) The association, and its wholly owned subsidiary, shall immediately terminate the incentive compensation plans currently in effect for Messrs. McDougal and Henley, whereby they receive 10% of the net income generated by Madison Financial Corporation and Madison Guaranty, respectively. In addition, the compensation paid to these two individuals shall be immediately adjusted to a level commensurate to the compensation paid to officers with similar duties and responsibilities, who are employed by thrifts similar in size and operating practices to Madison Guaranty.
- 4) The association or any of its subsidiaries shall not make or commit to make, purchase or commit to purchase, all or any part of a loan secured by real estate, until and unless the following conditions have been met:
 - a) the documentation requirements of Section 563.17-1(c) of the Insurance Regulations are fully satisfied;
 - b) the appraisal report obtained is in compliance with requirements and guidelines of Memorandum R-41b; and
 - c) the loan has a loan-to-value ratio of 90% or less based upon the lower of either the security property's sales price or its appraised value.
- 5) ~~Madison Guaranty, or any of its subsidiaries, shall not finance any additional sales of real estate owned by the association or any of its subsidiaries, save for sales closed pursuant to legally binding commitments to provide such financing in existence at the date of this letter.~~
- 6) ~~The association shall not, and shall not allow any of its subsidiaries, to transact business with any of the following named companies except for business transacted pursuant to contractual arrangements existing at the date of this letter. Furthermore, this office must be notified in~~

Madison Guaranty Savings and Loan
 Association
 Augusta, Arkansas
 June 19, 1986
 Page 3

writing prior to any payment of \$1000 or more by Madison Guaranty or any of its subsidiaries to any of the following companies pursuant to such a contractual arrangement. The companies are as follows:

- 1) Castle Sewer and Water Company
- 2) Castle Industries, Inc.
- 3) The Wilson Co., Inc.
- 4) Hoc Stuff, Inc.
- 5) Abernathy Development
- 6) Sorenson Enterprise
- 7) Madison Marketing
- 8) Madison Real Estate
- 9) Designer Construction
- 10) Industrial Development Company of Little Rock (IDC)
- 11) Industrial Services Co. (ISC)
- 12) Madison Properties, Inc.
- 13) Dixie Continental Leasing, Inc.
- 14) Aunsbaugh Designs
- 15) Master Developers, Inc.
- 16) Island Construction

If you have any questions regarding this letter or the July 24, 1986 meeting, please feel free to contact Chip G. Kieseewetter or myself at (214) 659-8500.

Very truly yours,

Walter H. Faulk
 Supervisory Agent

WHF:CK:jc

bcc: ADRO-DES
 Examinations

CCBW-887.



FEDERAL HOME LOAN BANK OF DALLAS

Chartered by the Federal Reserve Board

June 19, 1986

FD-333 No. 7601

Board of Directors
Madison Guaranty Savings and Loan
Association
P. O. Box 1581
16th and Main Streets
Augusta, Arkansas 72003

Dear Board Members:

An examination of Madison Guaranty's financial condition and operating practices is currently being conducted by examiners representing the Federal Home Loan Bank Board. This examination is not yet complete. However, it has already disclosed matters of serious supervisory concern including unsafe and unsound practices, instances of noncompliance with the July 19, 1984 Supervisory Agreement and regulatory violations. Accordingly, we are scheduling a board of directors meeting for July 24, 1986 at 1:00 p.m. to be held at the Federal Home Loan Bank of Dallas, 500 East John Carpenter Freeway.

Furthermore, as a result of this office's ongoing monitoring of Madison Guaranty, we have noted your association's continued failure to comply with the minimum net worth requirement of Section 563.13 of the Insurance Regulations. As April 30, 1986, your association's regulatory net worth totaled \$2.6 million, some \$1.63 million short of its minimum requirement.

As you know, the July 19, 1984 Supervisory Agreement by and between this office and your association requires you to take actions to effect Madison Guaranty's compliance with the net worth requirement of Insurance Regulation 563.13. However, during 1985, Madison Guaranty's liabilities grew 120% from \$48 million to \$105.3 million. In the first four months of 1986, liabilities grew 26% (annualized) to \$113 million. This recent growth by your association appears totally contradictory to your July 19, 1984 commitment to bring Madison Guaranty into net worth compliance.

As a result of the seriousness of the preliminary results of the examination in progress at your institution, we find it necessary to take immediate supervisory action. Accordingly, pursuant to Insurance Regulations 563.13(d), we hereby direct you to take the following corrective actions until the aforementioned meeting is held and/or you receive further notice from this office:

DEK218778

Very truly yours,
Federal Home Loan Bank of Dallas

Madison Guaranty Savings and Loan
Association
Augusta, Arkansas
June 19, 1986
Page 2

- 1) The association shall upon receipt of this letter immediately adjust its savings rates to ensure that the rates it pays to attract savings deposits are not in excess of the rates paid on comparable deposits by competing institutions in the same market. Furthermore, until the July 24, 1986 meeting, the association shall immediately reduce its growth to ensure that it will not increase its liabilities in an amount that is in excess of the amount of interest credited on savings accounts and the amount necessary to fund any loans-in-process obligations or legally binding commitments existing as of the date of this letter.
- 2) Madison Guaranty shall comply fully with the restrictions and requirements of Insurance Regulation 563.9-6. Accordingly, among other things, the association may not make any additional "direct investments", as that term is defined in Section 563.9-3(b)(1) of the Insurance Regulations, without the prior written approval of this office.
- 3) The association, and its wholly owned subsidiary, shall immediately terminate the incentive compensation plans currently in effect for Messrs. McDougal and Renley, whereby they receive 10% of the net income generated by Madison Financial Corporation and Madison Guaranty, respectively. In addition, the compensation paid to these two individuals shall be immediately adjusted to a level commensurate to the compensation paid to officers with similar duties and responsibilities, who are employed by entities similar in size and operating practices to Madison Guaranty.
- 4) The association or any of its subsidiaries shall not make or commit to make, purchase or commit to purchase, all or any part of a loan secured by real estate, until and unless the following conditions have been met:
 - a) the documentation requirements of Section 563.17-1(c) of the Insurance Regulations are fully satisfied;
 - b) the appraisal report obtained is in compliance with requirements and guidelines of Memorandum 3-41b; and
 - c) the loan has a loan-to-value ratio of 90% or less based upon the lower of either the security property's sales price or its appraised value.
- 5) Madison Guaranty, or any of its subsidiaries, shall not finance any additional sales of real estate owned by the association or any of its subsidiaries save for sales closed pursuant to legally binding commitments to provide such financing in existence at the date of this letter.
- 6) The association shall not, and shall not allow any of its subsidiaries, to transact business with any of the following named companies except for business transacted pursuant to contractual arrangements existing at the date of this letter. Furthermore, this office must be notified in

DEK218779

Madison Guaranty Savings and Loan
 Association
 Augusta, Arkansas
 June 19, 1986
 Page 3

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- 1) Castla Sewer and Water Company
- 2) Castla Industries, Inc.
- 3) The Wilson Co., Inc.
- 4) Hoc Stuff, Inc.
- 5) Abernathy Development
- 6) Sorenson Enterprise
- 7) Madison Marketing
- 8) Madison Real Estate
- 9) Designer Construction
- 10) Industrial Development Company of Little Rock (IDC)
- 11) Industrial Services Co. (ISC)
- 12) Madison Properties, Inc.
- 13) Delta Commercial Leasing, Inc.
- 14) Amosbaugh Designs
- 15) Master Developers, Inc.
- 16) Island Construction

If you have any questions regarding this letter or the July 24, 1986 meeting, please feel free to contact Chip G. Kiesewetter or myself at (214) 659-8500.

Very truly yours,

Walter H. Faulk
 Supervisory Agent

WHF:CK:jc

cc: ADRO-DES
 Examinations

DEK218780



SECURITIES DEPARTMENT
HERITAGE WEST BUILDING - THIRD FLOOR
201 EAST MARKHAM
LITTLE ROCK, ARKANSAS 72201

TELEPHONE 501-371-1011

December 10, 1987

Mr. Stewart Root, Director
Federal Savings and Loan Insurance Corporation
1700 G. Street, N.W.
Washington, D.C. 20552

Dear Mr. Root:

We currently have three State chartered savings and loan associations insured by the Federal Savings and Loan Insurance Corporation ("FSLIC") which are unquestionably insolvent and have been so for a long time. Those three associations are:

1. Central Arkansas Savings and Loan Association ("Central"),
Conway, Arkansas - FSLBS NO. 7572
2. Commonwealth Savings and Loan Association ("Commonwealth"),
Osceola, Arkansas - FSLBS NO. 7306
3. Madison Guaranty Savings and Loan Association ("Madison"),
Augusta, Arkansas - FSLBS NO. 7601

Enclosed are copies of our initial letter to each association regarding its insolvency and advising each that Arkansas law requires the Savings and Loan Supervisor to file a petition for the appointment of a receiver or conservator if proof is not filed that solvency has been restored in a reasonable amount of time. Please note that the letter to Central is dated November 12, 1985 and the letter to Commonwealth is dated November 25, 1986.

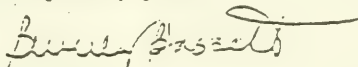
To date, we have not filed petitions to appoint receivers for these associations because we have received no assurance that the FSLIC will accept the appointment as receiver and because the Federal Home Loan Bank Board of Dallas ("FHLBB") has repeatedly promised to find a purchaser

Mr. Stewart Root
December 10, 1937
Page Two

or merger partner for the associations. However, since it is apparent now that these associations cannot be restored to solvency without assistance of the FDIC and since it appears unlikely that the FDIC will succeed in finding a purchaser or merger partner, we must request that these three associations be transferred immediately to the FDIC. If firm dates for these transfers are not forthcoming, we will be forced to file a petition in State Court similar to the one enclosed to seek the appointment of a receiver for each of the associations. Should we have to proceed in that manner, please advise of the procedure and time frame that the appointed receiver can expect regarding the receipt of the funds from the FDIC to orderly and timely liquidate each association.

Your prompt attention to this serious matter is requested.

Very truly yours,


BEVERLY BASSETT
Savings & Loan Supervisor

SB/ab

Enclosures

Certified No. F-563 867 380
RETURN RECEIPT REQUESTED

cc: Mr. H.C. Kieseveiter
Supervisory Agent
Federal Home Loan Bank Board of Dallas
P.O. Box 619026
Dallas/Ft. Worth, Texas 75261

Certified No. F-503 867 381
RETURN RECEIPT REQUESTED

5000327



SECURITIES DEPARTMENT
HERITAGE WEST BUILDING - THIRD FLOOR
201 EAST MARKHAM
LITTLE ROCK, ARKANSAS 72201

TELEPHONE 501 - 371-1011

September 23, 1988

المستشار
9.26-88
Sc
Bosch

Board of Directors
MADISON GUARANTY SAVINGS & LOAN ASSOCIATION
111 Edmonds
McCrory, AR 72101

Gentlemen:

In our certified letter dated November 16, 1987, we advised you that based on certain financial statements filed with this Department, Madison Guaranty Savings and Loan Association ("Association") is insolvent. We further advised you that the Savings and Loan Supervisor would be required to file a petition in the Chancery Court of Woodruff County, Arkansas for the appointment of a receiver or conservator for the Association if you did not file proof that solvency had been restored within a certain period.

Based upon the following financial statements which have been filed with this Department, the Association is still insolvent and its capital has become further impaired:

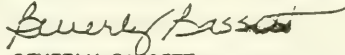
	Total Deficit Net Worth
Audited Financial Statements Dated December 31, 1986	\$ 10,438,482.00
Audited Financial Statements Dated December 31, 1987	\$ 14,110,611.00
Federal Home Loan Bank Board Financial Statements Dated August 31, 1988	\$ 15,044,000.00

Since it is apparent that the solvency of the Association cannot be restored, we request that the Association take immediate steps to convert the State charter of the Association to a Federal charter. Application for conversion to a Federal association should be made within sixty (60) days from the date of this letter. If such application has not been made within that time, the Department will be forced to file a petition in the Chancery Court of Woodruff County, Arkansas seeking the appointment of a receiver for the Association.

Board of Directors
 MADISON GUARANTY SAVINGS & LOAN ASSOCIATION
 September 23, 1988
 Page Two

By copy of this letter we are advising Mr. George Barclay, Principal Supervisory Agent of the Federal Home Loan Bank Board of Dallas and Mr. Stewart Root, Director of the Federal Savings and Loan Insurance Corporation, of our planned action.

Cordially,



BEVERLY BASSETT
 Savings & Loan Association Supervisor

BB/1h

CERTIFIED MAIL - RETURN RECEIPT REQUESTED
 CERTIFIED #P-243 815 473

cc: Mr. George Barclay
 Principal Supervisory Agent
 FEDERAL HOME LOAN BANK BOARD OF DALLAS
 500 East John Carpenter Freeway
 Dallas/Fort Worth, TX 75251

CERTIFIED MAIL - RETURN RECEIPT REQUESTED
 CERTIFIED #P-243 815 470

Mr. Stewart Root, Director
 FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
 1700 G. Street, N.W.
 Washington, D.C. 20552

CERTIFIED MAIL - RETURN RECEIPT REQUESTED
 CERTIFIED #P-243 815 471

Mr. Tommy Trantham, President ✓
 MADISON GUARANTY SAVINGS AND LOAN ASSOCIATION
 18th and Main Street
 Little Rock, AR 72201

CERTIFIED MAIL - RETURN RECEIPT REQUESTED
 CERTIFIED #P-243 815 474

1 "MR. FAULK: That's correct."

2 "MR. CAMP: And what about Beverly Bassett
3 Schaffer's role?

4 "MR. FAULK: She acted responsibly at all times,
5 and I don't see how anyone could say that knew the
6 history of this case, or would look into the history of
7 this case, could say that she acted irresponsibly or
8 delayed or drug her feet in any manner whatsoever."

9 Now let me turn, Ms. Schaffer to the question of the
10 appropriateness of the raising of capital through the sale
11 of preferred stock that was a year-and-a-half or so before
12 this Federal Home Loan Bank Board meeting that we have
13 described here today together with your memo to Mr. Bratton.

14 So a year-and-a-half before you were advised that the
15 Rose Law Firm has been retained by Madison Guaranty Savings
16 & Loan to look into the possibility of raising capital
17 through the issuance of preferred stock.

18 Now is it correct that this is a matter--that is, the
19 raising of capital through the issuance of preferred
20 stock--that was widely considered throughout the United
21 States at this time?

22 Ms. Schaffer. The preferred stock, I guess the
23 instrument, the preferred stock instrument that was being
24 considered, the kind of instrument that was being considered
25 by Madison, was being considered and recommended really

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410-684-2550

1 everywhere by federal regulators particularly for small
2 savings and loans, closely held entities without a market;
3 no public market for common stock, was as an alternative or
4 as a way to raise capital--obviously debt, you know, would
5 not be counted as part of their regulatory net work--for a
6 small institution with no other way of--no public market,
7 you know, for common stock of any kind, preferred stock was
8 probably the only realistic instrument available to raise
9 equity to infuse capital in a savings and loan during this
10 time, and that is why the Federal Home Loan Bank was pushing
11 it.

12 Mr. Ben-Veniste. All right. And let me ask you this:
13 When you say the Federal Home Loan Bank was pushing it, in
14 other words this was something that the federal regulators
15 saw as a salutary way, a good way for the banks in trouble
16 to raise their capitalization?

17 Ms. Schaffer. One of the few ways.

18 Mr. Ben-Veniste. Now let me refer you to a November
19 1985 article that appeared in The American Banker, and refer
20 to it very briefly. This is obviously a LEXIS-NEXUS
21 printout from that publication, and I refer to the paragraph
22 on the first page of the article--it is a long article, and
23 I am not going to go into all the details--but it says here:

24 "The capitalization of the thrift industry
25 gradually declined during the 1970s and early 1980s.

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1 Only in the past year has the slide in the industry
2 average capital-to-asset ratio been halted, and the
3 capital basis of many thrifts still remain too thin."
4 That was a problem of Madison Guaranty Savings & Loan;
5 correct?

6 Ms. Schaffer. Yes. Without sufficient capital, with
7 the losses in the real estate, there was no capital to write
8 those losses off against. As their net worth eroded, the
9 more capital they needed to book any losses against down the
10 road.

11 Mr. Ben-Veniste. And then they would be in a net loss
12 position and insolvent? If they were too thin, the danger
13 was they would go under the line?

14 Ms. Schaffer. Right.

15 Mr. Ben-Veniste. Now skipping a paragraph:

16 "In response to the concerns over their soundness,
17 thrifts, like banks, have employed a variety of methods
18 to improve capitalization, including increases in their
19 retained earnings, issuing new common and preferred
20 stock, and instituting new forms of long-term debt."

21 Correct?

22 Ms. Schaffer. Correct.

23 Mr. Ben-Veniste. And this was very commonly known
24 throughout the country, and something which the federal
25 regulators were encouraging savings and loans to do, as well

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1 as banks, in order to improve their position?

2 Ms. Schaffer. That's my belief.

3 Mr. Ben-Veniste. Okay. Now in fact, the work that the
4 Rose Law Firm was doing and handled by Mr. Massey, Mr. Brady
5 and Mr. Handley, did you have contact with Mr. Massey?

6 Mr. Handley. I did.

7 Mr. Brady. I did not.

8 Mr. Ben-Veniste. Mr. Handley, you had contact with Mr.
9 Massey and what was the issue over which you had contact?

10 Mr. Handley. Well, initially it was the preferred stock
11 issue; and later they filed a broker-dealer application.

12 Mr. Ben-Veniste. In connection with the preferred stock
13 issue, while you all agreed that under Arkansas law it would
14 be permissible for Madison Guaranty Savings & Loan to
15 increase its capitalization through the issuance of
16 preferred stock, there was a hitch, wasn't there?

17 Mr. Handley. Yes. They had to file a specific
18 application to do so. Right.

19 Mr. Ben-Veniste. And what was that, Ms. Schaffer?

20 Ms. Schaffer. The specific application?

21 Mr. Ben-Veniste. The "hitch" that was--the condition
22 that was attached to their ability to do it.

23 Ms. Schaffer. Well, the initial approval, so-called
24 "approval" of the novel stock plan was really just an
25 opinion that state law didn't prohibit issuance of preferred

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FEDERAL HOME LOAN BANK BOARD
AGENCY: Federal Home Loan Bank Board.

12 CFR Parts 561 and 563
Amendments Relating to the Issuance and Use of Subordinated
Debt Securities

50 FR 20550

May 17, 1985

ACTION: Final rule.

SUMMARY: The Federal Home Loan Bank Board ("Board") as the operating head of the Federal Savings and Loan Insurance Corporation ("FSLIC" or "Corporation"), is amending its regulations pertaining to the issuance and use of subordinated debt securities as regulatory net worth by institutions the accounts of which are insured by the FSLIC ("insured institutions"). The changes are intended to eliminate the use of techniques that tend to overstate the capital adequacy of insured institutions and therefore increase FSLIC risk. Four principal changes have been made. First, the amendment provides that for subordinated debt issued after December 5, 1984, the amount includable as net worth must be amortized pursuant to a schedule which permits 100 percent to be included when the years to maturity are greater than or equal to seven, and decreases by approximately one-seventh each year thereafter. Second, the amendment prohibits an insured institution from selling subordinated debt securities to other insured institutions or their corporate affiliates and including the subordinate debt as part of its regulatory net worth. The amendment does not, however, prohibit sales of subordinated debt to the issuer's corporate affiliates or sales to diversified savings and loan holding companies and their non-insured-institution subsidiaries. Third, the amendment requires that the subordinated debt certificate and any related document include specified language regarding the rights of the FSLIC in determining the treatment of subordinated debt liabilities of an insured institution which is in receivership. Fourth, the amendment delegates to the Principal Supervisory Agents the authority to approve most subordinated debt applications. Subordinated debt applications involving novel policy issues or offerings circulars for subordinated debt to be sold in a public offerings will continue to be received at the Board. Finally, a number of technical and clarifying changes have been made.

When this amendment was proposed on November 30, 1984, the Board notified the public that it was proposing to use as an effective date the publication date of the proposal. Accordingly, the effective date of this amendment is December 5, 1984.

EFFECTIVE DATE: December 5, 1984.

FOR FURTHER INFORMATION CONTACT: James H. Underwood, Attorney, Office of General Counsel, (202) 377-6649, or Francis M. Passarelli, Deputy Director, Office of

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Examinations and Supervision, (202) 377-6493, or Joseph A. McKenzie, Economist, Office of Policy and Economic Research, (202) 377-6763, Federal Home Loan Bank Board, 1700 G Street, NW., Washington, D.C. 20552.

TEXT: Dated: April 18, 1985.

SUPPLEMENTARY INFORMATION: By Resolution No. 84-680, dated November 30, 1984

49
FR 47499), the Board proposed revisions to its regulations concerning the issuance and inclusion of subordinated debt as regulatory net worth ("the proposal"). As part of the proposal, the Board proposed revisions to the subordinated debt and regulatory net-worth regulations, to: (1) Provide that the amount of subordinated debt includable as net worth would be amortized by approximately one-seventh each year beginning when the term to maturity of the subordinated debt is less than seven years; (2) prohibit the sale of subordinated debt to insured institutions or their corporate affiliates (excluding corporate affiliates of the issuer) if such subordinated debt is to be included in the issuer's regulatory net worth; (3) clarify the rights of the FSLIC in determining the treatment of subordinated debt liabilities of an insured institution which is in receivership; and (4) delegate to the Principal Supervisory Agents the authority to approve most subordinated debt applications. In addition, the Board proposed a number of technical and clarifying changes to 12 CFR 563.8 and 563.8-1, the Board's regulations pertaining to general borrowings and subordinated debt offerings.

As indicated in the proposal, the Board does not believe that subordinated debt should be treated as the equivalent of retained earnings and capital stock for purposes of complying with the Board's net-worth requirement. Although the Board recognizes that subordinated debt affords protection to the FSLIC in the event of insolvency of an insured institution, the proposal reflects the Board's belief that the use of an amortization schedule which reduces the amount of subordinated debt includable as net worth as the subordinated debt approaches maturity appropriately recognizes that subordinated debt is a non-permanent liability which must be repaid upon maturity.

Similarly, the proposed revision to the subordinated debt regulation to prohibit subordinated debt that has been issued to other insured institutions or their corporate affiliates from being included as regulatory net worth was intended to recognize the economic reality that no risk has been transferred outside the group of institutions with FSLIC-insured accounts when the purchaser of the subordinated debt security is another insured institution or a corporate affiliate thereof. Finally, the third major change set forth in the proposal, which would clarify the rights of the FSLIC to determine the treatment of subordinated debt liabilities in receivership cases, was intended to ensure that subordinated debt which is included as part of an insured institution's regulatory capital will help to reduce the FSLIC's costs in receivership cases and that the investing public will be aware of the treatment afforded such securities in the event of receivership.

Summary and Discussion of Comments Received on the Proposal

The Board received fifteen public comments in response to its proposal. Ten of the comments were received from savings and loan associations and Federal savings banks. Of the remainder, two were from law firms, and three from trade associations. Four commenters generally endorsed the proposal. Of those commenters who were opposed to all or part of the proposal, one was generally opposed to the proposal, eight were in general agreement with the proposal but

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objected to certain of its provisions, and two expressed no opinion on the proposal as a whole but objected to particular provisions.

Three commenters objected to the proposed requirement of a phased reduction in the amount of an subordinated debt issue qualifying as net worth, because no exemption was provided for subordinated debt issued with a sinking fund or serial maturity feature. These commenters argued that adoption of such a rule would result in duplicative reductions to net worth because of the net-worth amortization schedule and the fact that the scheduled prepayments or redemptions would reduce the amount of subordinated debt outstanding to which the amortization schedule would apply. Because of these features, it was argued that the proposed regulation would create disincentives to issuing subordinated debt with a sinking fund or a serial maturity feature.

As the commenters correctly pointed out, one of the issues addressed by the proposal was the Board's concern that the current regulation, which permits 100 percent of a subordinated debt issue to be included as net worth until the remaining period to maturity is less than one year, does not take into account the fact that the degree of protection provided to the FSLIC by subordinated debt diminishes as the subordinated debt issue approaches maturity. Because the

amount of a subordinated issue outstanding, and the amount includable as net worth, would be reduced over time for those subordinated debt issues with a sinking fund or a serial maturity feature. the commenters suggested that there was no need for those types of subordinated debt issues to be subject to the amortization schedule.

What was ignored by the commenters, however, was the second issue addressed by the Board in its proposal, concerning the significant leveraging potential of a subordinated debt issue as it approaches maturity. The Board believes that this leveraging potential should be reduced by a phased reduction in the proportion of the then-outstanding subordinated debt issue that can qualify for regulatory net worth. For a subordinated debt issue without a sinking fund or other required prepayments, the amount of money at risk, until the debt matures, is the original issue size.

On a subordinated debt issue with a sinking fund or serial maturity feature, however, the amount of money at risk, and the protection afforded the FSLIC, is gradually reduced as the sinking fund or serial payments are made. By not applying the phased-reduction requirement prepayments, the Board would be permitting, in effect, 100 percent of a shrinking issue to count as regulatory net worth while constantly reducing the qualifying regulatory-net-worth proportion of a larger and longer maturity non-sinking-fund issue. After consideration of these factors, the Board does not believe that it would be appropriate to distinguish between subordinated debt issues with a sinking fund or serial maturity feature and those without such features.

Several commenters suggested revisions to the seven-year amortization schedule. For example, one suggested that 100 percent of the subordinated debt issue be included as regulatory net worth during the first five years that the issue is outstanding, then be reduced on a straight-line basis for the remaining term of the issue, while another commenter suggested that the amortization schedule only take effect over the last half of the maturity schedule. After further consideration of this issue, the Board believes that the proposed seven-year amortization schedule is appropriate because it provides for a more gradual reduction of the issuer's regulatory net worth, thus giving the issuer

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more time either to replace the regulatory capital by the issuance of additional capital stock and/or subordinated debt or to adjust the amount of its liabilities to compensate for the reduction in its regulatory net worth. In addition, the seven-year amortization schedule encourages the issuance of longer-term subordinated debt, which affords the FSLIC a greater degree of protection.

One commenter asked the Board to explicitly address the treatment of subordinated debt that was either approved before December 5, 1984, the proposal date, or for which a substantially complete application was on file prior to that date. Although the Board indicated in the preamble of the proposal that subordinated debt which had previously been approved or for which a substantially complete application was filed by December 5, 1984, would be permitted to be included as regulatory net worth in accordance with the regulation as then in effect, this "grandfathering" provision has been incorporated in the final regulation.

Two commenters suggested that the prohibition on sales of subordinated debt to other insured institutions or their corporate affiliates be modified to permit such investments in de minimis amounts, e.g., one percent of assets. In addition, one commenter suggested that there should be no prohibition of sales to insured institutions if the transaction is not part of any related transaction between the insured institutions involving the purchase or sale of other assets. As indicated in the proposal, the Board does not believe that subordinated debt which has been issued to other insured institutions or their corporate affiliates should be included as regulatory net worth since no risk has been transferred to a third party outside of the group of FSLIC members. The Board notes, however, that the final rule allows for a waiver of the restriction on the sale of subordinated debt to other insured institutions where unusual circumstances would justify such a waiver.

Two commenters also objected to a restriction on sales of subordinated debt to other insured institutions because the effect would be to prohibit the use of a subordinated debt security as collateral for a loan from any insured institution. For the reasons discussed above, the Board does not believe that subordinated debt which is held by other insured institutions should be permitted to be included as part of the issuer's regulatory net worth, and it sees no reason to make an exception to permit the use of subordinated debt as collateral for a loan from an insured institution. In such a case, default by the borrower would result in the insured lender holding subordinated debt issued by another insured institution, to the ultimate detriment of the FSLIC.

In connection with the proposal, the Board specifically requested comments on

two issues: (1) With regard to the treatment of subordinated debt as regulatory net worth, whether subordinated debt that is convertible into common stock should be treated differently from non-convertible subordinated debt, and (2) in connection with the proposed prohibition of the sale of subordinated debt to other insured institutions or their corporate affiliates, whether any distinction should be made between sales of subordinated debt to diversified and non-diversified savings and loan holding companies. With respect to the first issue, the Board received only one comment. The commenter suggested that convertible subordinated debt not be subject to the seven-year amortization schedule but failed to provide any reasoned basis for the distinction. Upon further consideration of this issue, the Board has determined that there is no need to make any distinction in the regulation between convertible and


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non-convertible subordinated debt. Upon proper application, however, the Board would be disposed to permit subordinated debt which automatically converts to permanent capital stock to be 100-percent includable as regulatory net worth and not subject to any net-worth amortization schedule.

The Board received no comments on the second issue. The Board recognizes that the purchase of subordinated debt by a diversified savings and loan holding company (or one of its non-insured-institution subsidiaries) involves the risk that the issuing insured institution may fail and negatively affect the financial strength of the holding company. The Board believes, however, that diversified savings and loan holding companies, unlike non-diversified holding companies, will usually have sufficient financial strength to absorb potential losses resulting from the failure of the issuing insured institution and still ensure the capital adequacy of their own insured subsidiaries. The final rule, therefore, permits insured institutions to issue subordinated debt to diversified savings and loan holding companies and their non-insured-institution subsidiaries and to include the subordinated debt as part of their regulatory net worth.

One commenter also requested that the Board address the issue of whether an insured institution may sell subordinated debt to its service corporation or finance subsidiary and include the subordinated debt as part of its regulatory net worth. Although the final rule does not prohibit an insured institution from selling subordinated debt to its service corporation or finance subsidiary, the Board would not generally approve the inclusion of the subordinated debt as regulatory net worth since the transaction does not result in any risk being transferred outside of the FSLIC insurance system, or, in this case, outside the insured institution itself. If the service corporation or finance subsidiary were merely being used as a conduit for the transfer of funds from an independent third party, however, the Board, under circumstances where no assets of the parent savings and loan association were being transferred to the finance subsidiary or service corporation and which resulted in a transfer of risk to parties other than FSLIC members, may be willing to approve the use of the subordinated debt as regulatory net worth.

The Board is aware that during the past year many institutions have issued subordinated debt to "limited purpose" finance subsidiaries which obtained the funds to purchase the subordinated debt by issuing preferred stock to independent third parties. These transactions were typically structured so that, prior to the issuance of the preferred stock, the parent savings and loan institution would transfer to a second-tier finance subsidiary interest-earning assets with a market value in excess of the redemption price of the to-be-issued preferred stock. The finance subsidiary would then issue preferred stock to the



public and use all or part of the net proceeds to purchase subordinated debt of the parent savings and loan institution. In addition, once the preferred stock was issued, the finance subsidiary would be obligated to maintain assets having a market value equal to or in excess of the amount necessary to pay the redemption price of the preferred stock.

After careful consideration of the issues involved in these transactions, the Board has concluded that the parent savings and loan association should not be permitted to include as part of its regulatory net worth the subordinated debt issued to its finance subsidiary. The basis for the Board's conclusion is that the transaction, when viewed as a whole, does not result in any transfer of risk from the FSLIC to an independent third party since the holders of the

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preferred stock will have priority in liquidation over the FSLIC with regard to the assets of the finance subsidiary in the event that the parent savings and loan association becomes insolvent and is placed in receivership.

Because there may be other transactions involving the issuance of subordinated debt to a service corporation or finance subsidiary which the Board may be willing to approve, the Board does not believe that it would be appropriate to include as part of the final rule a flat prohibition on these types of transactions. Instead, the Board intends to retain the flexibility to review applications involving the issuance of subordinated debt to a service corporation or a finance subsidiary on a case-by-case basis. To address the Board's concern, as discussed in the preamble of the proposal, that issuance of subordinated debt should result in a transfer of risk to parties outside the FSLIC insurance system, the text of the final rule is clarified to specifically require that issuance of subordinated debt must result in the transfer of risk outside the FSLIC insurance system in order for the subordinated debt to qualify as net worth.

The Final Rule

The Board notes that the final rule being adopted today is substantially similar to the proposal. Section 561.13 has been modified to make clear that subordinated debt approved pursuant to @ 563.8-1 prior to December 5, 1984, or for which a substantially complete application was on file prior to that date, would be 100-percent includable as regulatory net worth until the remaining period to maturity is less than one year. The proposed change to @ 563.8-1 has been modified to clarify that the prohibition on sales of subordinated debt to insured institutions or their corporate affiliates does not extend to corporate affiliates of the issuer or to diversified savings and loan holding companies and their non-insured-institution subsidiaries.

As discussed previously, the effective date of this rule is December 5, 1984, the date the proposed rule was published in the Federal Register (49 FR 47499). The Board is aware that several applications have been filed and approved since the date of the publication which conformed with the proposed rule. Although the final rule is substantially similar to the proposed rule, questions have arisen as to whether the changes being made by today's action will have any effect on those applications which were approved during the interim period. The Board wishes to take this opportunity to confirm that applications which were in conformity with the proposed rule and were approved during the period since December 5, 1984, will not be affected by the final rule. Similarly, institutions which have issued subordinated debt during the interim period which was in conformity with the proposed rule but have not yet filed an application pursuant to @ 563.8-1 will not be required to amend their certificate forms or related indentures or purchase agreements in order to obtain approval of the subordinated debt application.

Final Regulatory Flexibility Analysis

Pursuant to section 3 of the Regulatory Flexibility Act, Pub. L. 96-354, 94 Stat. 1164 (1980), the Board is providing the following regulatory flexibility analysis.

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1. Need for and objectives of the rule. These elements are incorporated above in the SUPPLEMENTARY INFORMATION.
2. Issues raised by public comments and agency assessment and response. These elements are incorporated above in the SUPPLEMENTARY INFORMATION.
3. Alternative to the final rule. There are no alternatives to the

elimination of techniques that overstate the capital adequacy of small institutions and cause greater risks to the FSLIC that would be less burdensome in addressing the concerns expressed in the SUPPLEMENTARY INFORMATION set forth above.

Lists of Subjects in 12 CFR Parts 561 and 563

Insurance of accounts, Savings and loan associations.

Accordingly, the Board hereby amends Parts 561 and 563. Subchapter D, Chapter V of Title 12, Code of Federal Regulations, as set forth below.

SUBCHAPTER D -- FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

1. The authority for 12 CFR Parts 561 and 563 will continue to be: Sec. 17, 47 Stat. 736, as amended (12 U.S.C. 1437); Secs. 2 and 5, 48 Stat. 128 and 132, as amended (12 U.S.C. 1462 and 1464); Sec. 409, 94 Stat. 160, Sec. 5A, 47 Stat. 727, as amended by sec. 1, 64 Stat. 256, as amended, sec. 17, 47 Stat. 736, as amended (12 U.S.C. 1464); secs. 401, 402, 403, 405, 406, 407, 48 Stat. 1255, 1256, 1257, 1259, 1260, as amended (12 U.S.C. 1724, 1725, 1726, 1729, 1730), Reorg. Plan No. 3 of 1947, 12 FR 4981, 3 CFR, 1943-1948 Comp., p. 1071; sec. 4, 80 Stat 824, as amended (12 U.S.C. 1425a).

PART 561 -- DEFINITIONS

2. Amend @ 561.13 by revising paragraph (a); redesignating paragraph (c) as new paragraph (d) and revising the text thereof; and adding new paragraph (c); as follows:

@ 561.13 Regulatory net worth.

(a) The term "regulatory net worth" means the sum of all reserve accounts (except specific or valuation reserves), retained earnings, common stock, preferred stock, mutual capital certificates (issued pursuant to @ 563.7-4 of this subchapter), securities which constitute permanent equity capital in accordance with generally accepted accounting principles (if approved by the Corporation), appraised equity capital (as defined in @ 563.13(c) of this subchapter), and any other nonwithdrawable accounts of an insured institution: Provided, that for any non-permanent instrument qualifying as regulatory net worth under this section, either (1) the remaining period to maturity or required redemption (or time of any required sinking fund or other prepayment or reserve allocation, with respect to the amount of such prepayment or reserve) is not less than one year, or (2) the redemption or prepayment is only at the option of the issuer and such payments would not cause the institution to fail to meet its net-worth requirement under @ 563.13 of this subchapter; and

Provided further, that capital stock may be included as net worth without limitation if it would otherwise qualify but for either (i) a provision

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permitting redemption in the event of a merger, consolidation, or reorganization approved by the Corporation where the issuing institution is not the survivor, or (ii) a provision permitting a redemption where the funds for redemption are raised by the issuance of permanent stock.

* * * * *

(c)(1) The term "regulatory net worth" also includes subordinated debt securities issued pursuant to @ 563.8-1 of this subchapter: Provided, that an institution whose application to include subordinated debt in net worth pursuant to @ 563.8-1 was approved prior to December 5, 1984, shall be permitted to continue to include 100 percent of the principal amount of such subordinated debt as regulatory net worth until the remaining period to maturity (or time of any required sinking fund or other prepayment or reserve allocation, with respect to the amount of such prepayment or reserve) is less than one year; Provided further, that an institution that had filed a substantially complete application pursuant to @ 563.8-1 prior to December 5, 1984, shall be permitted to include 100 percent of the subordinated debt issued pursuant to such application as regulatory net worth until the remaining period to maturity (or time of any required sinking fund or other prepayment or reserve allocation, with respect to the amount of such prepayment or reserve) is less than one year if such subordinated debt otherwise is in compliance with the requirements of @ 563.8-1 and if such application is not amended in any material respect subsequent to December 5, 1984; and Provided further, that except as otherwise provided in this paragraph (c)(1) and unless otherwise approved by the Corporation in writing, subordinated debt securities issued pursuant to @ 563.8-1 after December 5, 1984, may be included as regulatory net worth only in accordance with the following schedule:

Years to maturity of outstanding subordinated debt	Percent included in net worth
Greater than or equal to 7	100
Less than 7 but greater than or equal to 6	86
Less than 6 but greater than or equal to 5	71
Less than 5 but greater than or equal to 4	57
Less than 4 but greater than or equal to 3	43
Less than 3 but greater than or equal to 2	29
Less than 2 but greater than or equal to 1	14

Less than 1

0

(2) For purposes of determining the principal amount outstanding of an obligation issued at a discount which exceeds 10 percent of the face amount, the issuing institution shall treat as principal only the gross consideration actually received upon issuance plus the accrued interest not payable until maturity, as of the date of the computation. In the case of an instrument sold at a discount which exceeds 10 percent and which bears no stated rate of interest, the amount which can be added to principal each period is an amount equal to the accrued interest payable computed on the "level-yield" or "interest" method.

(3) For purposes of computing the amount of subordinated debt includable as regulatory net worth pursuant to this paragraph, the issuing institution must determine the effective maturity of each portion of the principal amount

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outstanding of the subordinated debt which is subject to required sinking-fund payments, other required prepayments and required reserve allocations, and calculate the percentage amount of each portion of the principal amount outstanding which may be included pursuant to the schedule set forth in this paragraph.

(d) Unless the context indicates otherwise, the term "net worth" whenever used in this subchapter shall mean "regulatory net worth" as defined in this section, except that the term as used in @ 563.8-4 shall not include items permitted to be used pursuant to @ 563.13(c).

PART 563 -- OPERATIONS

3. Amend @ 563.8 by revising paragraph (f)(1); removing the word "or" at the end of paragraph (f)(2)(i)(b), substituting a semi-colon for the period at the end of paragraph (f)(2)(i)(c), and adding paragraph (f)(2)(i)(d); revising the introductory text of paragraph (f)(2)(ii); and revising paragraphs (g) and (h) as follows:

@ 563.8 Borrowing limitations.

* * * * *

(f) Minimum denominations of securities evidencing outside borrowings.

(1) General. The minimum denomination of the security shall be \$100,000, and the purchase price upon original issue shall be at least \$90,000.

(2) Exceptions.

(i) * * *

* * * * *

(d) Distributed exclusively abroad to foreign nationals, provided the offering is made subject to safeguards reasonably designed to preclude distribution or redistribution of the securities within, or to nationals of, the United States. Such safeguards include, without limitation, measures that would be sufficient such that registration of the offering would not be required if the issuer were subject to the Securities Act of 1933.

(ii) The minimum denomination may be \$1,000 (without regard to purchase price) if the securities are not offered or sold at any office of the institution or any of its affiliates, and

* * * * *

(g) Disclosure. No insured institution shall, directly or indirectly in connection with the offer, sale, or issuance of a security evidencing a borrowing pursuant to this section, make any statement that: (1) Is false or misleading with respect to any material fact; or (2) omits to state any material fact (i) necessary in order to make the statements made, in light of

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circumstances under which they were made, neither false nor misleading, or (ii) during the period the securities are being offered, necessary to correct any earlier statement made in the offering materials that has subsequently become false or misleading.

(h) Offering Circular. (1) Review. No final offering circular shall be furnished to purchasers under paragraph (f)(2)(ii)(b) of this section unless it is filed with the Corporate and Securities Division of the Board's Office of General Counsel, and declared effective by the General Counsel or his designee, prior to its use.

(2) Content. A final offering circular under this section shall be in a form satisfactory to the Corporation. At a minimum, it shall contain information in detail comparable to that required under the Securities Act of 1933, General Form of Registration S-1, or such other form as would be appropriate if the issuing institution meets the eligibility requirements prescribed by the Securities and Exchange Commission for use of that form, and Item 7 of Form PS as prescribed in Part 563b of this subchapter.

(3) Financial statements. A final offering circular under this section shall contain financial statements required by the appropriate form under the Securities Act of 1933 which the insured institution would be eligible to use. Such financial statements shall be prepared in accordance with the requirements of @ 563c.1 of this subchapter. The issuer shall make available promptly upon request to each purchaser of a security issued subject to the requirements of paragraph (f)(2)(ii)(b) (including purchasers upon resale) while the securities are outstanding, audited annual statements of condition and operation, and comparative unaudited quarterly statements of condition and operations for the first three quarters.

* * * * *

4. Amend @ 563.8-1 by substituting a semi-colon for the period at the end of paragraph (b)(2)(iv) and adding new paragraphs (b)(2)(v) and (b)(3); revising the introductory text of paragraph (d); revising paragraphs (d)(1)(i) and (d)(1)(v); adding new paragraph (d)(1)(vi); revising paragraph (d)(3); and adding new paragraph (i), as follows:

@ 563.8-1 Issuance of subordinated debt securities.

* * * * *

(b) Eligibility requirements.* * *

(2) * * *

(v) The subordinated debt securities have been issued, or are proposed to be issued, to an institution whose accounts are insured by the Corporation, or a corporate affiliate thereof. This requirement, however, shall not apply to any corporate affiliate of the issuer or to any diversified savings and loan holding company or any non-insured-institution subsidiary thereof.

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(3) Whether the issuance of such securities by the applicant in the transaction and any related transactions will result in a transfer of risk from the Corporation to parties other than insured institutions.

* * * * *

(d) Requirements as to securities. Subordinated debt securities issued pursuant to this section shall meet all of the following requirements unless one or more of such requirements, not including paragraphs (1)(i)(a) and (1)(ii) of this section which are not eligible for waiver, are waived by the Corporation.

(1) Form of certificate.* * *

(i) Bear on its face, in bold-face type, the following legends: (a) "This security is not a savings account or deposit and it is not insured by the Federal Savings and Loan Insurance Corporation"; and (b) "This security is not eligible for purchase by any institution whose accounts are insured by the Federal Savings and Loan Insurance Corporation or a corporate affiliate thereof, except that this security may be purchased by a corporate affiliate of the issuer or by any diversified savings and loan holding company and any non-insured-institution subsidiary thereof."

* * * * *

(v) Be in a minimum denomination of at least \$100.000 (provided that the purchase price upon original issue shall be at least \$90.000), except that the minimum original amount shall be \$1.000 (without regard to purchase price) for securities meeting the requirements of @ 563.8(f)(2)(ii) of this Part, and upon partial prepayment a certificate for the amount then outstanding may be issued in substitution therefor; and

(vi) Set forth, in the certificate and the purchase agreement or indenture, precisely the following statement:

Notwithstanding anything to the contrary in this certificate (or in any related document): (a) If the FSLIC shall be appointed receiver for the issuer of this certificate (the "issuer") and in its capacity as such shall cause the issuer to merge with or into another insured institution, or in such capacity shall sell or otherwise convey part or all of the assets of the issuer to another insured institution or shall arrange for the assumption of less than all of the liabilities of the issuer by one or more other insured institutions, the FSLIC shall have no obligation, either in its capacity as receiver or in its corporate capacity, to contract for or to otherwise arrange for the assumption of the obligation represented by this certificate in whole or in part by any insured institution or institutions which results from any such merger or which has purchased or otherwise acquired from FSLIC as receiver for the issuer, any of the assets of the issuer, or which, pursuant to any arrangement with FSLIC, has assumed less than all of the liabilities of the issuer. To the extent that obligations represented by this certificate have not been assumed in full by an insured institution with or into which the issuer may have been merged, as described in this subparagraph (a), and/or by one or more insured institutions which have succeeded to all or a portion of the assets of the issuer, or which have assumed a portion but not all of the liabilities of the issuer as a

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result of one or more transactions entered into by FSLIC as receiver for the issuer, then the holder of this certificate shall be entitled to payments on this obligation in accordance with the procedures and priorities set forth in the Federal Home Loan Bank Board's regulations as they may be applicable to the receivership of the issuer or as they may be set forth in orders of the Federal Home Loan Bank Board relating to such receivership. (b) In the event that the obligation represented by this certificate is assumed in full by another insured institution, which shall succeed by merger or otherwise to substantially all of the assets and the business of the issuer, or which shall by arrangement with FSLIC assume all or a portion of the liabilities of the issuer, and payment or provision for payment shall have been made in respect of all matured installments of interest upon the certificates together with all matured installments of principal on such certificates which shall have become due otherwise than by acceleration, then any default caused by the appointment of a receiver for the issuer shall be deemed to have been cured, and any declaration consequent upon such default declaring the principal and interest on the certificate to be immediately due and payable shall be deemed to have been rescinded. (c) This security is not eligible to be purchased or held by any FSLIC-insured institution or corporate affiliate thereof except that this security may be purchased or held by a corporate affiliate of the issuer or by a diversified savings and loan holding company and its non-insured institution subsidiaries. The issuer of this security may not recognize on its transfer books any transfer made to a FSLIC-insured institution or any corporate affiliate thereof (except as provided in the preceding sentence) and will not be obligated to make any payments of principal or interest on this security if the owner of this security is a FSLIC-insured institution or any corporate affiliate thereof (except as provided in the preceding sentence). (d) For the purpose of parts (a) and (b) of this paragraph, the term "insured institution" means a depository institution the accounts of which are insured by the FSLIC, the Federal Deposit Insurance Corporation or any federal or state agency which performs similar functions.

* * * * *

(3) Limitations on sale to certain institutions.

(i) No insured institution may sell any subordinated debt securities issued pursuant to this section to a Federal Home Loan Bank or, except with prior written approval of the Corporation in a supervisory situation, to the Corporation; and

(ii) Without the prior written approval of the Corporation, no insured institution may sell, either directly or indirectly through an underwriter or otherwise, any subordinated debt securities issued pursuant to this section to an insured institution or any corporate affiliate thereof, except that an insured institution may sell such securities to its corporate affiliates or to a diversified savings and loan holding company and its non-insured-institution subsidiaries.

* * * * *

(i) Delegations of authority. (1) The Principal Supervisory Agent is authorized to approve subordinated debt applications filed pursuant to this

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section, if they are in compliance with regulatory requirements, unless the subordinated debt application involves a significant issue of law or policy upon which the Corporation has not taken a formal position or requires an offering circular for subordinated debt securities to be sold in a public offering. (2) The Director of the Office of District Banks, with the concurrence of the Director of the Office of Examinations and Supervision and the General Counsel or their designees, are authorized to approve any subordinated debt application filed pursuant to this section if they are in compliance with regulatory requirements, unless the respective office directors are of the opinion that the subordinated debt application involves policy considerations which warrant formal consideration by the Corporation.

By the Federal Home Loan Bank Board.

John F. Ghizzoni.

Assistant Secretary.

[FR Doc. 85-11885 Filed 5-16-85; 8:45 am]

BILLING CODE 6720-01-M

MADISON GUARANTY

THE QUAPAW QUARTER

P O Box 1583 • 16th & Main Street
 Little Rock, Arkansas 72203 • 501-374-7777

September 3, 1985

TO: Seth Ward
 FROM: Jim McDougal
 SUBJECT: Industrial Property

The following is a summary of our conversation of last Friday:

1. You will purchase all land north of 145th Street and the utility plants for \$1,150,000.
2. Madison will take an option for 270 days to purchase those properties for \$1,137,000, plus accrued interest on the loan you will make to purchase the property. If any tax consequences should arise for you from the transaction, Madison will pay those taxes.
3. You will have the present IDC manager collect the rent and utility payments and forward the net proceeds monthly to Greg Young here. Greg will then apply this income monthly to the accruing interest on your loan.
4. Madison will provide you with a letter requiring that you drive a prestigious automobile while you are in charge of this project.

JM/ss

SEN 33186



SW1-004

MINUTES OF MEETING

BOARD OF DIRECTORS

MADISON FINANCIAL CORPORATION

September 12, 1985

The Board of Directors of Madison Financial Corporation met on September 12, 1985, at 1:00 p.m. at the office at 16th and Main Streets, Little Rock, Arkansas. All directors were present. The minutes of the previous meeting were read and approved as recorded.

Chairman McDougal introduced the first order of business before the board: the purchase of approximately 400 acres for a mobile home development.

The acreage, located on 145th Street, (near Pratt Road), is to be proposed in conjunction with Castle Industries, a mobile home manufacturer. The estimated cost of the land is approximately \$600,000.

After a lengthy discussion, the Board unanimously approved the purchase of this development to be known as Castle Grande Estates.

There being no further business, the meeting was adjourned.

Chairman

0000091

MEETING OF THE BOARD OF DIRECTORS
OF
MADISON FINANCIAL CORPORATION

Pursuant to the ByLaws of the Corporation, the undersigned Directors of the Corporation consent to the following informal action and adopt the following resolutions:

RESOLVED, that the Corporation is hereby authorized to execute all documents necessary and proper to permit said Corporation to purchase all the real and personal property owned by Industrial Development Company of Little Rock for the cash purchase price of \$1,750,000, pursuant to the form of the agreement, attached hereto as Exhibit 'A'; and,

FURTHER RESOLVE that Seth Ward, as an employee and agent of the Corporation is specifically authorized to execute the above-mentioned documents, including the Agreement attached hereto as Exhibit 'A', and any other documents necessary to be executed by the Corporation pursuant to the Agreement to purchase all of the real and personal property owned by Industrial Development Company of Little Rock.

SIGNED, this 20th day of August, 1985.

Pat did not "create"
this document. She
found + pulled
from minutes
book -

Pat, this should be
either incorporated into
the minutes or entered as an
independent resolution for
MFC.

on (maybe not)
- by [unclear]



Federal Deposit Insurance Corporation
Washington, D.C. 20429

Office of Investigations
Office of Inspector General

MEMORANDUM OF INTERVIEW

INTERVIEW OF HARRY DON DENTON	DATE OF INTERVIEW June 11, 1986	INTERVIEWED BY [REDACTED]
INTERVIEW HELD AT Washington, D.C.	PEOPLE PRESENT N/A	

HARRY DON DENTON, former Chief Lending Officer, MADISON GUARANTY SAVINGS AND LOAN (MGSL), was interviewed on June 11, 1986 by Special Agents E.P. HUSOK and ED SLAGLE in Washington, D.C. DENTON had previously been interviewed relative to his knowledge of activities at, and individuals connected with, MGSL. Subsequent to that interview, DENTON had reviewed files he had, and had provided certain documents to reporting agent. He also agreed to be interviewed again.

In the earlier interview, DENTON had recalled that he first learned of the May 1, 1986 option agreement allowing MADISON FINANCIAL CORPORATION (MFC) to purchase the property WARD owned at 27 & 28 Holman Acres in July, 1986. DENTON said that since that interview, he had a chance to review certain records that he maintained and now recalls that he learned of the option earlier, during the FHLBB examination of MGSL in 1986.

He stated that he either had the option or an examiner brought the option to him. He recalled that there was a discussion wherein it was pointed out to him that the property description was of the wrong property. DENTON said that he had the first two pages of the option retyped, and that MGSL President JOHN LATHAM and WARD initialled the newly replaced pages. DENTON could not recall who typed the two pages for him, but said that JANIE BABCOCK was the secretary that worked with him at that time.

DENTON said that on the copy of the option with the wrong description on it that he had maintained, he had written "Examiners" at the top right corner. He did not recall whether that meant he provided it to, or received it from, the examiners, but that the examiners were involved in some manner.

DENTON was shown a copy of the option with the wrong property description that contained a note dated May 7, 1986. The note, by an examiner, indicated that the examiner had discussed the option with DENTON and had been told that it was the wrong description. DENTON also reportedly told the examiner that it should be the Holman Acres property on the option.

DENTON said that he had no recollection of the discussion with the examiner, and said that from the note it appeared to him that he had pointed the property description error out to the examiner.

DENTON said that he believes that he was initially given the option by either SETH WARD or HILLARY RODHAM CLINTON of the ROSE LAW FIRM. He recalled only that he received it prior to July 14, 1986. He could recall no other specific details.

DENTON said that he believed that the option served two purposes; to create paperwork within the institution indicating that there was an intention to purchase the property, and to establish the value of the property

FOR AGENCY USE ONLY

FILE NUMBER WA-94-0016	DATE TRANSCRIBED June 13, 1986	PAGE 1 OF 6
AGENTS SIGNATURE(S) [REDACTED]		

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HARRY DON DENTON	June 11, 1986	WA-94-0016

collateralizing WARD loan #4027. DENTON speculated that another possible reason for the option was that as conditions at MGSL deteriorated, WARD and whoever was advising him became concerned about WARD's protection from repaying loan #4027, and that the option was another level of protection.

DENTON said that he had no specific knowledge, but believed that at one time there was going to be a put option concerning the same property. He described a put option as one in which MFC would have been required to purchase the property. He could provide no additional information.

Concerning the Ward loan #4027 of March 31, 1986, DENTON said that after the Ward loan #2962 that purchased the IDC property was paid off on February 28, 1986, WARD began to demand of JOHN LATHAM and JAMES MCDUGAL that he be paid his commissions that were due from the sale of IDC property. DENTON said that he understood that MGSL did not have the money to pay the commissions, and that either LATHAM or MCDUGAL suggested that WARD be loaned \$400,000. He said that he understood that the \$400,000 represented \$300,000 in commissions, \$70,000 to repay the outstanding balance on a loan (#3359) that had been made to WARD on February 25, 1986 to pay the deficiency on loan #2962 after proceeds from IDC property sales had been applied to it, and \$30,000 for interest on the notes.

DENTON was asked how he was aware of that agreement and he said that he may have learned it from the WARD trial, but believed that WARD, and possibly others, had told him as well.

DENTON said that it was then agreed, he believed between WARD and LATHAM, that MFC would borrow \$400,000 from WARD, and that a note was executed, he believed, on March 31, 1986. He said that he believed that simultaneously or shortly thereafter, \$100,000 was received from the WILSON Company for payment on WARD's loan #4027. DENTON said the payment was the return of money that WARD had previously given to ROBERT WILSON to participate in a loan in which WARD later decided to not participate. DENTON said that it was then decided that the \$400,000 note would be replaced by a \$300,000 note and a \$70,000 note. Those two notes were dated April 7, 1986.

DENTON said that he prepared the loans to and from WARD based on instructions from LATHAM.

DENTON said that since the earlier interview, he had recalled that he did have a conversation with CLINTON concerning WARD loans at MGSL. DENTON said that on April 7, 1986 he received a telephone message from "Sandra" of "Hillary Clinton's Office", telephone number 375-9131. The message requested that he return the call.

DENTON said that either that day or the following day, he telephoned, from MGSL, 501-374-7777, the number that had been on the message from CLINTON and it was answered by SANDRA. DENTON does not know who SANDRA is. He said he identified himself and was immediately placed through to CLINTON. DENTON said that he could not recall all of the specifics of the conversation, but did recall that the issue of the \$400,000 loan to WARD, #4027, and the \$400,000 loan from WARD to MFC notes was discussed. He had a vague recollection from the conversation that CLINTON was preparing the note for the \$400,000 from WARD to MFC. DENTON said that he told CLINTON that the note had already been prepared and executed. He said that CLINTON then asked him to send her a copy of the note, or both notes, for her review.

DENTON said that it was possible that the WARD loan(s) to MFC that he and CLINTON discussed were the \$300,000 and \$70,000 notes that were made after the \$400,000 note was replaced, but was not sure.

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DENTON recalled that during the conversation, he told CLINTON that there could be a problem with the notes as they constituted in effect a parent entity fulfilling the obligation of a subsidiary. He said that his caution was "summarily dismissed" by CLINTON in a manner which he took to mean that he was to take care of savings and loan matters, and she would take care of legal matters. He said that he also expressed the same concern to WARD shortly after.

DENTON said that he sent CLINTON a copy of the note(s) through an individual named HENRY, last name unknown, who worked at MGSL and sometimes acted as a courier.

DENTON was asked if he knew why CLINTON called him on this matter. He said that he did not, but that he was "reasonably confident" that she was acting on WEBB HUBBELL's behalf. He said that he thought it would have been inappropriate for HUBBELL to represent WARD since WARD was HUBBELL's father-in-law. He was asked why he thought that CLINTON may have acted on HUBBELL's behalf and he said that he did not know.

DENTON was asked if he was ever advised by WARD or HUBBELL that CLINTON was an alternate contact at ROSE for WARD matters. He said that he did not believe so. DENTON said that with the exception of the BABCOCK loan matters, he recalled no other contact with CLINTON on any matter involving MGSL. He said that when he first received the telephone message, he may have thought it was in reference to the BABCOCK matter.

DENTON was asked if he was aware whether CLINTON was representing WARD or MGSL/MFC when she contacted him concerning the WARD loans. He said "Looks to me like she was representing both."

DENTON was asked if he had ever dealt with HUBBELL on the matter of the offset loans. He declined to answer. When questioned about SANDRA, he said that the only secretary he knew at ROSE was HUBBELL's secretary, MAITHA WILLIAMSON, that he had come to know because she was present on occasions when DENTON went to HUBBELL's office with WARD. He was asked whether any of his visits to HUBBELL's office concerned any matter related to MGSL. He said that he was sure that there were some. He was asked if any of those visits concerned WARD and MGSL and he declined to answer.

DENTON was questioned concerning the fact that the page of notes that were apparently behind the telephone message appear to have been related to the BABCOCK participation loan that he had previously advised that he worked on with CLINTON. He stated that it may have been that he anticipated that the call from CLINTON was to concern the BABCOCK matter, but that was not what the conversation was about. He said that he believed that he only spoke to CLINTON concerning the WARD loans on this one occasion.

DENTON was questioned concerning his recollection of this phone call at this time. He said that after the earlier interview, he reviewed a copy of the ROSE LAW FIRM billing records that he had obtained from the media. He said that after confirming to himself that there was a bill by CLINTON for a discussion with him concerning IDC on April 7, 1986, he gave the matter thought and also reviewed the documents that he had retained.

He said that when he reviewed the documents, he found a copy of the March 31, 1986 note from WARD to MFC that had handwriting on it, dated April 7, 1986, indicating that the note was replaced by a \$300,000 and \$70,943 note. He also reviewed two notes dated April 7, 1986 for those amounts that he had left handwritten messages on that said "Replacement notes - 5-5-86 (the \$300,000 note), and "Copies of new note - Signed 5-5-86" (the \$70,943 note).

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He said that he noted that the May 5, 1986 dates match the date of the option for WARD property at 27 & 28 Holman Acres, the property that secured loan #4027.

DENTON said that, after reviewing these documents and giving the matter some thought, he recalled the telephone call with CLINTON. DENTON could not recall where he obtained the copies of the replacement notes or who or when they were prepared.

DENTON was asked if he was the loan officer on the WARD loans. He responded that "Yes, whatever that means. I initialed them, they were assigned to me". He said that every loan had to have a supervising officer, and he believed he assigned the notes to himself.

DENTON recalled that he had introduced WARD to MCDOUGAL, and that within a few days WARD was working at the institution, in what DENTON thought was a public relations capacity, but that WARD interpreted as evaluating commercial loans and deals. He said that WARD subsequently negotiated the IDC purchase.

DENTON was asked if he knew how the manner in which the purchase of the IDC property was agreed to. He said that it was explained to him by LATHAM and MCDOUGAL that the purchase was too big for MGSL to purchase at the time that the deal was made because of a limitation on investments by MGSL in a subsidiary. He said he had been aware of some limitation, but knew no specifics.

DENTON was shown a copy of examiners notes dated April 30, 1986 that indicated that the examiner had been told by LATHAM that an Arkansas regulation limiting direct investments in service corporations was in effect, but had been waived. He said he had no knowledge of a waiver or of LATHAM claiming that MGSL had one.

DENTON said that he had believed that the IDC purchase, which came to be referred to as CASTLE GRANDE within a few months, had the potential to be a successful development. He said that it had the advantage over the earlier MAPLE CREEK development of having an infrastructure in place, and that he thought that MCDOUGAL had the resources to make it work.

DENTON said that it was his understanding that WARD was acting as a "nominee" purchaser in the acquisition of the IDC property, acting on behalf of the institution and carrying the property at no risk. He was asked what he meant by a nominee purchaser and said that he considered it a person who was a non-recourse buyer that stood to gain by selling the purchase back to the institution.

DENTON was asked about the consummation of the IDC sale to MFC and WARD. He said that he might have known that the purchase was to be divided between MFC and WARD, but that he recalled that, up until or shortly before the closing, he believed that MFC was making the entire purchase. He said that he believed that he took a single draft to the closing to pay for the property. DENTON said that, had he known earlier that WARD was making part of the purchase, he would have taken a check in WARD's name to the closing. He said that the transaction was booked by a debit to cash arrangement and that it was a week or ten days before Loan #2962 was made to WARD for his portion of the purchase.

DENTON said that he was sure that he prepared the note that was loan #2962. He said that he was supplied the language on the note. He was asked who supplied him the language and said "I decline to answer."

DENTON was shown an Assignment dated September 13, 1985 by which MFC assigned the right to purchase

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the property north of 145th Street and the sewer and water assets to WARD. DENTON said that he believed, but could not say, that the assignment was backdated.

DENTON said that he was aware at some point after the loan #2962 was made that there was an undocumented understanding that the proceeds of sales of WARD owned property were to be applied against the note. He said that he also came to understand at a later date that WARD was to receive commissions on the sale of IDC property.

DENTON was questioned about the payoff of loan #2962 to WARD. He said that he believed that the purchase was "MADISON's deal" and that it was to their benefit to get the investment off of the books as soon as possible.

He was asked if he knew why the transactions that financed a large part of the loan #2962 payoff, the CASTLE SEWER AND WATER and FULBRIGHT purchases, were done on February 28, 1986. He said that "I'm sure it was the urgency of the examiners", and said that he was told so by LATHAM. He said that he was told that he was to get ready for a rash of transactions, involving DEAN PAUL, FULBRIGHT, and CASTLE SEWER AND WATER on February 28, 1986.

DENTON was asked if he was told that an examination was to commence after February 28, 1986. He said that when he was told to get transactions closed, he did not need to be told that an examination was to commence.

DENTON was asked why a loan (#3359) was made to cover the approximately \$70,000 deficiency that was left on the loan after the application of the CASTLE SEWER AND WATER and FULBRIGHT proceeds, as opposed to applying some other source of funds. He said that they "...did, a piece of paper, Poof."

DENTON was shown a copy of a page of notes made by FHLBB Chief Examiner JAMES CLARK during the 1986 examination. Paragraph 2 of the notes concern information CLARK received from a person(s) at MGSL/MFC concerning the option. The notes indicate that CLARK was told that MFC had committed to purchase property from WARD (by description the 22.5 acre parcel at Holman Acres), but that WARD had another buyer and would not consummate the sale because of tax considerations. The note indicated that an option was to be prepared to replace a note. The notes also indicated that a loan to WARD was unconnected to the option. It also indicated that a \$400,000 loan to WARD had been canceled, and that two notes totalling \$370,000 had been executed to guarantee the purchase of the real estate. It further indicated that no cash had changed hands on the note. CLARK's notes indicate that he requested a copy of the option when it was done.

Another note at the bottom of the page, made by FHLBB examiner DARLENE FORD, indicated that on April 29, 1986, she had spoken to DENTON and was told that the option was not yet prepared, but that he would provide a copy when it was available. DENTON also reportedly indicated that the notes would never be funded.

DENTON said that he was certain that the information reported by CLARK did not come from him. He said that, contrary to the notes, there was no deed involved in the option transaction. He also said that he did not recall any tax issues in the matter. He said that he believed that a statement about the tax issues would have come from WARD, LATHAM, or GREG YOUNG.

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DENTON said that he did not recall ever discussing the option with CLARK. He said that he recalled discussing only one matter with CLARK, and that matter involved mobile homes supplied to the CASTLE GRANDE development by CASTLE INDUSTRIES.

DENTON said that he had no specific recollection of the information reported in the FORD notes. He was asked if it was possible that he had provided the information in the notes to someone else who then passed it off to the examiners. He said it was possible, but that he did not believe so because the information was incorrect.

DENTON said he had never attempted to conceal documents from the examiners. He said that he had no knowledge of documents being discovered in a desk drawer by examiners.

Concerning the reported delivery of the option and signed and unsigned copies of the September 24, 1986 WARD/MCDOUGAL agreement on the purchase of CASTLE GRANDE being delivered to him on July 11, 1986, DENTON said that he was sure that it was the unsigned copy of the letter that he received first, and believed that he received a signed version later that day. Among the documents provided by DENTON was an unsigned copy of the agreement that he had marked as received as received on July 14, 1986 from "Seth." Another document provided by DENTON was a July 14, 1986 memorandum to LATHAM concerning his understanding of the commissions and notes to and from WARD.


Beyond those agreements between WARD and MGSL/MFC discussed, DENTON said he was aware of no others.

DENTON said that he had no knowledge that the delivery to him of the documents on July 14, 1986 had any connection to the resignation of the ROSE law firm from MGSL matters on July 14, 1986. He said that he had not known of the retainer agreement at that time.

DENTON was asked whether he was aware of any work that the EDWARD G. SMITH & ASSOCIATES engineering firm did on the CASTLE GRANDE project. He said that he believed that the firm did some work on the CASTLE SEWER AND WATER project.

FDICFederal Deposit Insurance Corporation
Washington, D.C. 20429Office of Investigations
Office of Inspector General

MEMORANDUM OF INTERVIEW

INTERVIEW OF HARRY DON DENTON	DATE OF INTERVIEW June 3, 1996	INTERVIEWED BY 
INTERVIEW HELD AT Little Rock, Arkansas	PEOPLE PRESENT N/A	

HARRY DON DENTON, former Chief Lending Officer, MADISON GUARANTY SAVINGS AND LOAN ASSOCIATION (MGSL), was interviewed on June 3, 1996 at Little Rock, Arkansas. The interview was conducted by Special Agent E.P. HUSOK and Senior Attorney FRED GIBSON, FDIC OIG. DENTON was advised that he was to be interviewed concerning his knowledge of activities at MGSL and MADISON FINANCIAL CORPORATION (MFC), and of individuals associated with those entities.

DENTON said that he was employed as a National Bank Examiner with the Office of the Comptroller of the CURRENCY (OCC) from approximately 1964 to 1974. In 1974, he became a Senior Lending Officer at UNION NATIONAL BANK (UNION), Little Rock, Arkansas.

DENTON said that while at UNION, he met SETH WARD through ROBERT WILSON. He recalled that his first involvement in a business matter with WARD concerned WARD's interest in becoming involved in an Illinois company that was considering relocating to Newport, Arkansas. DENTON recalled taking an airplane trip with WARD concerning that matter during which WARD mentioned that he was going into the automobile business. DENTON said that he told WARD that he did not believe the business would be successful, after which an argument ensued. DENTON said he had no contact with WARD for approximately eight months after that. DENTON said that WARD called him approximately after that period and told him that he had been right in predicting that the automobile business would be unsuccessful.

DENTON said that during his tenure at UNION he did some of the financing for interests that WARD was involved in, including POM, Inc., the automobile business, and a warehouse purchased as an investment. He said he also did some financing for SETH (SKEETER) WARD, II, SETH WARD's son.

DENTON said that while at UNION he became familiar with and, after 1975, did some financing for JAMES MCDOUGAL, specifically the earlier development projects such as FLOWERWOOD FARMS. He said he also did some financing for SENATOR J. W. FULBRIGHT. He said that while at UNION he also was the loan officer on a 1978 \$20,000 equity loan to MCDOUGAL and SUSAN MCDOUGAL and WILLIAM and HILLARY RODHAM CLINTON individually for the purchase of the property that has come to be referred to as the WHITEWATER property.


DENTON said that in January, 1984 he left UNION to start his own investment banking business. Approximately six months later, he returned to UNION.

DENTON said that he went to work at MGSL in April, 1985. He said that because of the general condition of Savings and Loans at that time, he declined to take a position as an institution officer, and was instead hired

FOR AGENCY USE ONLY

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AGENTS SIGNATURE(S)



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as a consultant. He said that he did not know that he had been named by the Board of Directors as an officer of the institution until he was told so by FHLBB examiners during the examination of MGSL that commenced in MARCH, 1986. He said that he had knowingly signed documents prior provided to him that identified him as an officer prior to having been advised by the examiners that he had been so identified. DENTON said that it was his belief at the time that the MGSL BOARD of DIRECTORS was "phony" and carried no real authority.

DENTON said that, at that time, he considered he and WARD to be business friends, although he believed WARD to be a "user". He said that he saw WARD at the Little Rock club on one occasion and WARD told him that he had turned over control of POM to his son, that he was bored, and that he would be stopping by MGSL to talk to DENTON. DENTON said that WARD later did come to the institution and he introduced him to MCDOUGAL. DENTON said that within a few days, WARD and MCDOUGAL had made an agreement that WARD was to act as a public relations officer for MGSL in the Little Rock business community. DENTON said that WARD told him that his function was to identify potential property deals.

DENTON said that one potential deal that WARD identified was property owned by the INDUSTRIAL DEVELOPMENT COMPANY (IDC) that was located primarily south of Little Rock at 145th Street, with some additional property near 65th Street. DENTON said that three Little Rock banks had loaned money to IDC for the purchase of the property, but, that by that time, sales had become stagnant and the banks were pressuring IDC to sell the property. DENTON said that he understood that WARD and IDC Chairman EVERETT TUCKER entered into negotiations concerning the sale of the property. He said that WARD told him that the initial asking price had been \$6,000,000, but that a final purchase price of \$1,750,000 was agreed to.

DENTON said that he was told by MGSL President JOHN LATHAM that there was a regulatory limitation on investments by MGSL in their service company and that as a result, the transaction was structured such that WARD contributed \$1,150,000 to the purchase price, and MFC contributed \$600,000. DENTON said it was his understanding that MFC was contributing \$600,000 because that was all that was available under the restriction.

DENTON said that he was aware that there was a purchase agreement executed, and that there was an understanding that WARD would take possession of all of the property north of 145th Street and the assets of the INDUSTRIAL SERVICES COMPANY (ISC) which were a water and sewer system. He said he understood that the ISC assets would be used to provide sewer and water service to the MFC MAPLE CREEK development as well as the IDC property. MFC was to take possession of all of the remaining property. He said he was not aware of a written assignment of the property from MFC to WARD concerning the property. DENTON recalled that the issue of the regulatory limitation arose almost contemporaneous to the closing.

DENTON said that he believed that TUCKER died at about the time of the closing, and that he was replaced as IDC Chairman by R.A. (BRICK) LILE.

DENTON said that he was on the "periphery" of the deal and was not aware at that time of any written agreements or understandings between MFC or McDOUGAL and WARD.

DENTON said that he attended the closing that was held at BEACH ABSTRACT in Little Rock. He recalled that the closing was attended by him, MCDOUGAL, LATHAM, WARD, LILE, DARRELL DOVER as counsel to IDC, and DENNIS NELSON of BEACH ABSTRACT.

DENTON said that he did not recall discussing the purchase of the IDC property with any attorneys for WARD

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or MFC. He said that he more recently heard the names of ROSE LAW FIRM (ROSE) attorneys THOMAS THRASH and DAVID THOMAS as having been possibly involved in the transaction or closing, but did not believe that they had been. He said that he believed that because he does not believe that he ever met THRASH, and believes that he first became familiar with THOMAS approximately one year later.

DENTON said that it was his recollection that MGSL delivered all of the money to the transaction, and that the loans were booked at a later time.

DENTON said that he believed that his first contacts with ROSE regarding MGSL began in approximately December, 1985. He said that soon after he arrived at MGSL, he became involved in negotiations concerning disputed participation loans with two other institutions, FIRST FEDERAL and SAVERS. He said that he resolved the dispute with FIRST FEDERAL. He said that two of the disputed loans with SAVERS were the BABCOCK and TULSA ECONOLIDGE matters. He said that in approximately August, 1985, SAVERS did buy back one of the MGSL participations. DENTON said that he went to LATHAM and MCDUGAL to discuss obtaining counsel in the matter and that it was agreed that attorney HARVEY BELL would be hired. DENTON said that he believed that BELL worked on the matter for no more than approximately 90 days.

DENTON said that at that time, LATHAM told him that BELL was going to be replaced by ROSE in the dispute with SAVERS. DENTON said that LATHAM told him the reason was that ROSE had contacts with the FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC) on securities matters and would be more effective. DENTON was asked why contacts with FSLIC may have made ROSE potentially more effective, or why FSLIC would intervene in a dispute between two institutions. DENTON said that he thought that the contacts could result in a "more sympathetic ear."

DENTON said that he subsequently received a call from ROSE attorney HILLARY RODHAM CLINTON, and that he later carried the SAVERS related files to her office and advised her of the situation.

DENTON said that all of his contacts at ROSE were with CLINTON, and that the SAVERS matter was the only matter they were involved in. He recalled that at some time prior to the beginning of the March, 1986 FHLBB examination at MGSL, ROSE advised of a conflict they had with SAVERS and resigned from representing MGSL. DENTON recalled that the dispute arose from representation of SAVERS by ROSE in a matter before the UNITED STATES EQUAL EMPLOYMENT OPPORTUNITY COMMISSION.

DENTON was shown a portion of a recap of the ROSE billing records concerning SAVERS and was advised that the first identified billing occurred in April, 1986 and continued from that point for a number of months. DENTON said that was not consistent with his recollection. He also noted that a ROSE attorney named BURNS billed for some work, but he did not recall dealing with anyone but CLINTON in the matter. DENTON said that a major contributor to his recollection that the work ceased before the examination was that he recalled specifically not engaging another attorney for the matter after ROSE resigned because he did not want to draw any attention to the loans while the examiners were at the institution.

DENTON said that he never saw ROSE bills that were submitted to the institution while he worked there.

DENTON said that he has much more recently become aware that CLINTON sent a July 14, 1986 letter to ROSE resigning from representation. He repeated that he believed that they had resigned earlier, but that the resignation may have just involved the SAVERS matter.

DENTON was questioned and shown certain documents concerning WARD loan number 2753 of July 15, 1985 for \$25,000. DENTON said that he believed that the loan was for the purchase of an airplane. DENTON said that MCDUGAL directed WARD by letter agreement to purchase the airplane for the exclusive use of MFC.

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Additional information concerning this loan and the airplane is reported by separate correspondence.

DENTON was questioned and shown certain documents concerning WARD loan number 2754 of July 16, 1985 for \$10,000. DENTON said that he believed this loan was also made relative to the airplane. Additional information concerning this loan and the airplane is reported by separate correspondence.

DENTON was questioned and shown certain documents concerning WARD loan number 2853 of September 17, 1985 for \$40,000. DENTON said that the loan was made for the purchase of a Mercedes automobile by WARD. DENTON reviewed a copy of the Loan Submission Worksheet. He said that with the exception of his initials at the "Officer's Approvals" block, he did not prepare the form. He did not know who prepared the form. DENTON was also asked about the notation "See Confidential Files" at the financial statement area. He said that the confidential files referred to were probably WARD's financial statements that were kept in his office, as the financial statements of all officers of the institution routinely were. DENTON was asked if WARD was an officer of the institution. He stated that technically he was not, but that he did work there and it was perceived that he was an officer.

DENTON said that the automobile was later sold by WARD to a personal friend in Fort Scott, Kansas, but that the automobile was later returned to WARD as it had not been properly titled in the United States.

DENTON was questioned and shown certain documents concerning WARD Loan number 2962 of October 15, 1985. DENTON recognized the loan as that utilized by WARD to make the purchase of the IDC property and ISC assets, and recalled that he was involved in making the loan, although he noted that his initials were not evident at the lender signature block. He said that he recalled being aware that the IDC transaction was being put together, but did not recall being given any specific instructions concerning doing the loan. He said that he believed that he had no dollar limit on his authority to approve loans.

DENTON was questioned why the note was dated October 15, 1985 when the IDC transaction had closed on October 4, 1985. DENTON said that he found that unusual only because BEACH ABSTRACT had been involved in the closing, and that BEACH ABSTRACT was an excellent title company. DENTON said that it could be a replacement note, but that he did not believe that WARD, as an "insider" would typically have been required to sign a note at closing. DENTON also said that he believed that there may have been a delay in executing the note as there had been some surprise at closing.

DENTON said that it was his opinion that the wording on the note, under the Security Agreement line, that stipulated that WARD was not personally responsible for the note was prepared by HUBBELL. When asked why he was of that opinion, DENTON said that he had not prepared the language, that no one at the institution had, and that he did not believe that WARD had written it but had provided him the language to include on the note. He had no other specific information.

DENTON was shown a copy of the September 12, 1985 Minutes of the Board of Directors of MFC that authorized the MFC purchase of IDC property. DENTON could provide no specific information, but said that the date on the minutes did not mean anything. He said that "Dates had little to do with when documents were done at Madison." He said that there were so many instances of backdating documents that he would not assume that anything occurred on the listed date.

DENTON was shown a copy of a September 3, 1985 letter from MCDUGAL to WARD that referred to a conversation of the previous Friday wherein it was reportedly agreed that WARD would purchase the property

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north of 145th Street and the utility plants, and that "Madison" would take an option for 270 days to purchase the property for \$37,000 more than paid and cover any tax consequences. DENTON said he was only vaguely familiar with the letter.

DENTON was shown a copy of a September 24, 1985 letter agreement signed by WARD and MCDOUGAL, that set forth the agreement between MCDOUGAL and WARD concerning the division of the property and assets to be purchased by WARD and "Madison Guaranty Savings and Loan Association." The letter referred to a right of assignment; an option to purchase the property bought by WARD; and an agreement that proceeds of the sales of property would be applied to the WARD note; and commissions to be paid to WARD on sale of property. DENTON said he was vaguely familiar with the letter.

DENTON was questioned concerning the pay off of the loan made by WARD to purchase the IDC property. DENTON said that it had been his understanding that all sales of property north of 145th Street, or the assets of ISC, were to be applied to the WARD note. He said that he and LATHAM were advised of that manner of repaying the note by MCDOUGAL and WARD, but he could not recall when he first learned that. He said that he did not know at that time that commissions were to be paid to WARD for sale of the properties. DENTON said that the sale of two parcels of property were eventually applied against the WARD note; the CASTLE SEWER AND WATER purchase, and the FULBRIGHT purchase. DENTON said that it was his recollection that both sales were concluded on February 28, 1986, and the proceeds were in fact applied against the WARD note.

DENTON said that after the sale of those two properties, there remained two parcels owned by WARD. One was a sixty to seventy acre parcel at the northeast corner of the IDC property, and tracts 27 and 28 of Holman Acres. DENTON said that he believed that WARD still owns an interest in the parcel of property at the northeast corner.

DENTON said that it was his understanding that the sales to CASTLE SEWER AND WATER and FULBRIGHT, and the application of those funds against the WARD note was a single transaction, intended to occur simultaneously. DENTON was shown a copy of a Deed of Release dated February 19, 1986 that released WARD from the note, and was asked why the Deed of Release preceded the CASTLE SEWER AND WATER and FULBRIGHT transactions, since in effect WARD was released before the consummation of the sales whose proceeds were applied against the note. DENTON could not provide an explanation.

DENTON was asked whether the timing of the sales to CASTLE SEWER AND WATER and FULBRIGHT, occurring as they did shortly before the beginning of the FHLBB examination at MGSL, was done specifically because of anticipated scrutiny of the examiners of the WARD note and IDC purchase. DENTON said that he would not answer that question before being granted a letter of immunity. He then said that WARD had the note, and that it was "obvious" that MGSL/MFC "...bought way outside their limit."

DENTON was asked whether he was specifically told that the above transactions had to be done before the arrival of the examiners. He said that he had not. He was asked if he had received any similar instructions. He said that "Three guys sitting, raining, thundering, don't have to be told to get your raincoat."

DENTON was asked whether he had any knowledge concerning the possible backdating of documents related to this transaction. He said he did not. He said that he believed that the loans were all booked on the same day. DENTON said that he did not know who, if anyone, had told him that the transactions occurred for the benefit of the examiner's review, but that "...one could look at it and conclude that it was." DENTON said that he realized that he still had potential civil liability in this matter and that "I'm not going to dig myself in a hole."

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DENTON was questioned and shown certain documents concerning WARD loan number 3003 of October 25, 1996 for \$5,000. DENTON said that he had no recollection of that loan. He was asked whether the proceeds of that loan were utilized by WARD for personal travel to France. DENTON said that he recalled that a Concorde airplane had come to Little Rock on one occasion, that WARD had travelled to France on the Concorde, and that he believed that may have been the purpose of the loan.

DENTON was questioned and shown certain documents about WARD loan number 3271 of January 27, 1986 for \$91,500. DENTON had no recollection of that loan. He was advised that the proceeds of the loan were deposited at CITIZEN's NATIONAL BANK in Fort Scott, Kansas. DENTON said that WARD was involved in some business ventures with JOE IDA of Fort Scott, including a business involving TERRY SCOTT involving ultra light airplanes. DENTON opined that the loan may have had something to do with one of those business ventures between WARD and IDA.

DENTON was questioned and shown certain documents concerning WARD loan number 3359 of February 25, 1986 for \$70,000. DENTON said that loan was related to the pay off of the WARD note 2962 made for the purchase of the IDC property. He recalled that after the CASTLE SEWER AND WATER and FULBRIGHT funds were applied against WARD's note, a \$53,000 deficiency remained. DENTON said that the loan was made to get the mortgage released because MCDOUGAL and LATHAM wanted the non-recourse WARD note off of the books because it would draw the attention of the FHLBB examiners. DENTON said that WARD was also anxious to have the note retired.

DENTON was asked what difference it made that the note was paid off if it was still available for the review of the examiners. He said that a closed and paid off note was not as likely to be scrutinized by the examiners.

DENTON was asked whether he had any contacts with anyone from ROSE relative to the transactions of February 28, 1986. He said that he believed that he had some conversations with ROSE attorney WEBB HUBBELL about the transaction, but was not sure. DENTON said that he would see WARD and HUBBELL on occasion at WARD's home or lake house and the loans were discussed. He recalled also that WARD on occasion would walk into HUBBELL's office at ROSE, or call HUBBELL and tell him to meet somewhere. DENTON said that he was together with WARD and HUBBELL on more than five occasions. He said that on one occasion he went to HUBBELL's office to meet with WARD and HUBBELL. He said that he did not recall the specifics of the office visit or if anyone else was present.

DENTON was asked whether he understood when talking to HUBBELL concerning WARD's loans that he was talking to WARD's lawyer. DENTON said "I decline to respond."

DENTON said that he did not believe that he talked to CLINTON about the WARD loans, and said that to the extent of his knowledge he only discussed the SAVERS loans with CLINTON.

DENTON was questioned and shown certain documents concerning WARD loan number 4027 of March 31, 1986 for \$400,000. DENTON said that "This was a loan to pay SETH WARD his commissions." DENTON said that it was generally understood that WARD was to receive a 10% commission on sales of the IDC property.

DENTON said that at that time, the FHLBB examination was underway and that it became apparent to WARD that "Madison was going to have problems. DENTON said that possibly out of an abundance of caution, since it was apparent from early in the examination, and that this was an insider transaction, that there was going

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to be trouble. DENTON said that he believed that HUBBELL was aware of the examination and the potential for problems involving WARD's loans.

DENTON said that LATHAM told him that the institution was going to make WARD a \$300,000 loan to cover the commissions that WARD was due until such time as the commissions could be paid. He said that there was also to be a \$70,000 loan to cover WARD's outstanding debt to MGSL and anticipated interest. DENTON said that LATHAM and WARD had worked out the mechanics of the loan in order to get WARD the commissions. DENTON said that he probably discussed this matter with WARD.

DENTON was asked why the 22.5 acres Holman Acres property was used as collateral. He said that WARD probably offered it as it was the only piece of property north of 145th Street left that was feasible to use. DENTON explained that the only other piece of property left from WARD's acquisition was the property at the northeast corner. He said that property was being developed as a trailer park, and that individual parcels had already been sold which would encumber the note.

DENTON said that he did not specifically recall if an appraisal of the Holman Acres property was done, but that appraisals for MGSL were designed to support the transactions.

DENTON was shown a copy of the Holman Acres property description, dated March 31, 1986, that was attached to the mortgage securing the loan. He said he had no specific knowledge concerning the description. DENTON was asked whether he discussed the property description with any ROSE attorney or attorney from any other firm. He said that he did not believe that he did. DENTON was asked whether he was aware of who prepared the description, and he said he did not.

DENTON was shown a copy of a September 24, 1985 letter from WARD to MCDOUGAL that concerned the original IDC purchase agreement between the two of them, and that included a caveat that WARD was going to retain title to the approximately 22.5 acres that was the Holman Acres property. He was asked if he had any knowledge of that letter or its preparation. DENTON initially said that he did not. He was asked whether he had any knowledge of the letter being backdated or the property description being prepared in connection with this loan. DENTON indicated that he wanted a letter of immunity before answering the question. He said that he was not sure if what he knew could be adverse to his interests, but that "I'm not digging a hole for myself."

DENTON then said that as "a teaser", "I think all of those documents were drawn after the fact. These and some others. I'll go so far as to say they were drawn after July, 1986."

DENTON was asked why he believed that documents were backdated or created after July, 1986. He said that his basis was information that he had supplied under subpoena to the Office of the Independent Counsel and to the RTC outside counsel law firm PILLSBURY, MADISON, SUTRO.

DENTON was questioned and was shown certain documents concerning WARD loan number 4041 of April 8, 1986 for \$70,000. DENTON said that he believed that proceeds of that loan were used by WARD to purchase a vintage airplane. He recalled that \$40,000 was for the plane and thought that the remaining \$30,000 may have been for work on the plane.

DENTON was questioned and shown certain documents concerning a loan WARD made to MFC on April 4, 1986 for \$73,70,943 and a loan WARD made to MFC on April 7, 1986 for \$400,000. DENTON recalled that WARD had his commission money from loan 4027, and the deficiency payment on his original IDC note by loan number 3359, but wanted greater protection in the form of notes to set off his loans. DENTON said that he did not specifically discussing these loans himself, but believed that WARD discussed them with LATHAM and

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MCDUGAL. DENTON said that "I was just a secretary" in this matter.

DENTON was shown a version of the \$400,000 note that was for \$300,000 and asked if he was aware why it was drawn. He said that he had no specific recollection, but that it was possibly because of an appraisal.

DENTON was asked if he was aware of an exchange of \$100,000 payments between WARD and WILSON. DENTON recalled that WILSON had loaned money to MFC for use in the CAMPOBELLO project, and that WARD had given WILSON \$100,00 intending to participate in the loan. WARD subsequently changed his mind and WILSON returned the money.

DENTON was questioned and shown certain documents concerning WARD loan number 4221 of June 6, 1986 for \$70,000. DENTON recalled that the note was to take care of loan 3359 which was made to cover the deficiency amount in the payoff of the original IDC purchase note, Loan 2962.

In referring to the ongoing FHLBB examination at MGSL, DENTON said that "By June, things were really festering" at MGSL and LATHAM directed him to make the loan to WARD. DENTON did not recall specifically, but believed that the intention may have been to replace loan 3359 with a collateralized note.

DENTON said that this note and all of the WARD notes and loans after March 31, 1986 were geared to pay WARD his commissions. DENTON was asked why LATHAM was so anxious to pay the commissions and responded "To keep him quiet." When asked specifically what he meant, DENTON said it was to keep him from filing suit or bringing the situation to the attention of the examiners. Concerning the examiners, DENTON said that "The fact that we loaned him \$400,000 on a \$50,000 piece of property was pretty apparent".

DENTON said that the proceeds were used to pay off loan 3359 through an internal credit/debit, and that no money actually changed hands.

DENTON was questioned and was shown certain documents concerning WARD loan number 4215 of June 10, 1996 for \$93,000. DENTON said that he believed that it was used by WARD to consolidate other loans, such as the airplane and automobile loans, and paid off loan 4041.

DENTON was questioned concerning the May 1, 1986 option agreement by which MFC agreed to purchase the Holman Acres property from WARD for \$400,000. WARD said that at the time, he assumed that HUBBELL prepared the option. Concerning the attendant property description, DENTON remarked that "Hillary made a mistake" but when asked whether he thought it was prepared by HUBBELL or CLINTON, he said that "They (ROSE) billed for it." DENTON said that, as he recalled, there was an error in the original property description that was listed on the option. He was asked when he discovered that there was an error on the original option and said that he declined to respond.

DENTON was asked who ROSE was representing in the preparing of the option, MGSL or WARD, and said that "Looks to me like they were representing both." He was asked if he knew at the time that ROSE was representing both WARD and MGSL/MFC and he declined to answer.

DENTON said that the first time he became aware of the option was on July 14, 1986. He said that at that time, he was given an unsigned copy of the option by WARD. He said that "I'm sure his intent was to inform me of its existence ... to bring me into the loop of knowing what the understanding was." DENTON recalled that the option he received from WARD on that date was an unsigned copy. He said that he could not recall

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specifically, but believed that WARD may have come to his office and made some remark such as that DENTON needed the option for his file. DENTON said that he believed that WARD gave him at that same time a copy of the September 24, 1985 letter agreement between WARD and MCDUGAL concerning the purchase of the IDC property that included the caveat concerning WARD maintaining title to the 22.5 acres Holman Acres property. He said that he believed that the letter he was given at that time was an unsigned version.

DENTON was asked what he did with the option and letter agreement when WARD gave it to him and said that he would have kept one copy for his file and put another copy in the institution's files. DENTON said that he was presently aware that July 14, 1986 was also the same day that CLINTON wrote a letter formally withdrawing from representing MGSL, but that he did not know that at the time.

DENTON was asked whether the option agreement had anything to do with the commissions due WARD. He stated "I decline to answer".

He then said that the intention of the exchange of the offsetting notes between WARD and MGSL/MFC was to pay WARD his commissions, and that the purpose of the option was to validate the value of the property and to document that value.

DENTON said that he was aware at the time of the demand by WARD for his commissions, that there was no money available to pay WARD his commissions, and that the offset notes were generated to satisfy the payment of the commissions.

DENTON said that he did not know whose idea the option was.

DENTON was asked what he thought the purpose of the option was. He said that he thought that the purpose was to strengthen WARD's ability to set off the \$400,000 loan he had made to cover the commissions, and also believed that the option served to evidence the value of the property.

DENTON said that in 1986, he recalled discussing the option with no one other than WARD. Near the conclusion of the interview, DENTON said that he believed that the error in the description was raised by the FHLBB examiners.

DENTON was questioned concerning two June, 1986 memorandums from LATHAM to WARD releasing him from personal responsibility on loans 4027 and 4221, and left the only recourse as the 22.5 acres Holman Acres property. DENTON said it had been his understanding that the loans were all engineered to pay WARD his commissions, but that at some point WARD got some advice that the loans as made were not as "ironclad" as he had thought.

DENTON was questioned concerning a December 11, 1986 letter from WARD to him by which WARD submitted a Quit claim deed returning control of the Holman Acres property to MGSL and satisfying WARD Loans 4027 and 4221. DENTON recalled receiving the letter from WARD and said that it was his understanding that WARD wanted to document the status of the loans. DENTON was asked whether he discussed the letter with WARD and said that he felt certain that he did, but that he could not recall. He also said that he might have discussed it with WARD, that HUBBELL's secretary may have prepared it, and that "WEBB sent it to me".

DENTON was questioned concerning a December 22, 1986 letter from him to WARD acknowledging the receipt of the WARD letter and Quit claim deed. He acknowledged that he sent the letter.

DENTON was questioned concerning any information he had concerning CASTLE INDUSTRIES. He said

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that it was a company headed by an individual named ALISON. He said that he understood that WARD owned 20,000 or 30,000 shares in CASTLE INDUSTRIES and saw it as an opportunity to get some of the mobile home work on the former IDC property to CASTLE INDUSTRIES.

DENTON was questioned concerning a ROSE billing entry that indicated that he spoke with CLINTON on April 7, 1986 relative to the IDC matter. DENTON said that he had no recollection of the call, and believed that the entry may have been in error. He said that there was an April 1, 1986 telephone message from CLINTON to him that he had maintained, but that he did not recall what the purpose of that call was.

At the conclusion of the interview, DENTON was asked whether during the time that the events were occurring he had any discussions with any ROSE attorney, any ROSE attorney not acting on behalf of ROSE, any other attorney from any other firm, or any other person concerning the issues that had been addressed in the interview. He said that other as he had already advised, or had declined to answer, he did not.

PILLSBURY MADISON & SUTRO

M E M O R A N D U M

FOR FILE

FROM: Gary Davidson

DATE: June 1, 1994

File: 88429-500-0004

RE: No. 7326 Madison Guaranty Savings & Loan,
Little Rock Arkansas - Meeting with Don Denton

On April 28, 1984 a meeting was held in Little Rock, Arkansas with Don Denton, Chuck Patterson and myself. The following are my notes from that meeting.

Denton started his relationship with Madison Guaranty in April of 1985. He stated he knew McDougal from earlier banking days when he was associated with Union National Bank in Little Rock. Denton was originally hired as a consultant but later in 1986 he learned he was appointed to the chief lending officer. His primary purpose for hire was to generate \$50 million in additional size to the institution. This growth was to be in the way of loans. Denton said that McDougal had approximately \$50 million invested in fed funds and wanted to convert this money into market rate loans.

In late 1984 to early 1986 McDougal took in a sizable amount of brokered funds to offset these deposits. He wanted to get out of real estate and consumer loans and invest in commercial projects. Denton was a commercial loan officer at

Union National Bank and contacted many of his old customers and moved them to Madison Guaranty. Denton explained that the liability side of the balance sheet for the institution was higher than the asset side and needed numerous loans to offset this exorbitant cost of funds. When asked about who handled the brokered deposits Denton explained that the company owned by Dan Lasater and a firm in Kansas City supplied the broker deposits.

Denton stated there was no true loan department and no structure or loan committee at the institution. He stated the institution operated as an institution the size of \$7 million. He had to develop a loan committee at the institution. However this loan committee was considerably diluted by the number of insider transactions. Denton calculated that close to 50% of all of the loan transactions made by Madison were to friends and family of McDougals.

Denton stated that Sarah Hawkins was to be a compliance officer and handle liaison with the federal home loan bank board and be a representative on all minority committees. John Selig would be classified as the general counsel for the institution. An attorney by the name of Steve Cuffman handled many of the institutional foreclosure and collection problems. Another attorney by the name of Hopkins handled some loan documentation work. Denton stated that many of the insider loans did not have much in the way of documentation. Most were considered character loans with no financial statements or proper filings.

The work on 1308 Main had started prior to his arrival. He did know that John Latham did own property next to the 1308 address. There was extensive media coverage on this cleanup of the area. Jim Guy Tucker lived in this area and was working with McDougal to clean up the area to attract new businesses and investors.

Denton remembered that one of the stockholders by the name Peacock owned real estate at 12th and Main. He suggested that we check into this transaction as he knew that considerable amount of funds went into the building at 12th and Main. Denton did not recall the assumption by Lisa Aunspaugh of the 1308 property but knew that Bill Henley ended up with ownership of this property. When asked Denton stated that Bill Henley could always borrow \$190,000 from the institution if so needed. In viewing some of the other transactions Bill Henley was involved in, Denton described the 1308 Main transaction as one of the better deals that Bill was in. Denton stated the entire process of transferring property of 1308 Main was to reduce the investment by the savings and loan in the service corporation.

When discussing the 1300 block of Main Denton stated there was a conservative effort to clean up this area. When McDougal could not find legitimate investors he ended up selling the property to friends and family. Denton claimed that he may have been involved in structuring the loan documents but was not involved in the approval process.

Denton stated that he knew Seth Ward from his relationship at Union National Bank. He considered their relationship to be friends and that he was introduced through Bob Wilson in 1975. His first loan to Ward involved a steel plant in Arkansas. Denton financed many loan deals for Seth Ward. Many of them were profitable as well as some were losses. Denton even admitted to socializing regularly with Seth Ward.

At a dinner social event with Ward, Denton was informed that the company POM had been transferred from Seth Ward to his son Skeeter Ward and that he was looking for something to do. At that time Denton asked McDougal if Ward could be involved in some of the savings and loan activity. McDougal hired Ward to assist Don Denton in his efforts to find commercial deals for the institution. Ward was also to assist Madison Financial in obtaining and transacting real estate acquisitions. Denton arranged for the meeting between McDougal and Ward so that they could discuss the consulting contract with Ward. Denton was not involved in those discussions nor was Denton involved in the discussions about who would buy what portion of property surrounding Castle Grande.

Denton was involved in two types of transactions. Denton terms these as arms length transactions and policy loans. In an arms length transaction Denton would evaluate each deal and do the paperwork to properly document the loan. He would do due diligence review on all transaction. On policy loans McDougal

generally would come to Denton and tell him that the S&L was making a particular loan and do the necessary paperwork. At times Latham would also carry this message from McDougal and transmit it either a memo or phone call. Only these two individuals, McDougal and Latham, had the authority to make these policy loans. When asked if Ward was involved in any other ventures at the same time he was involved at Madison, Denton stated from October of '85 through April of '86 Ward was involved in manufacturing of ultralight airplanes.

Denton stated his first contact with McDougal and Fulbright was in 1975 when the chairman of the board of Union National Bank came to him and asked him to prepare the necessary paperwork for a real estate deal involving the two individuals. In this arrangement McDougal would locate land for investment and make arrangements for the necessary financing. McDougal would then place the real estate back on the market after subdividing the tract into smaller sections. Of that land that was sold, McDougal would generate his own internal paper and then pledge that paper as collateral on the real estate transactions with Union National Bank. Denton stated that most of the paper generated by McDougal had only a 50% collection rate. Denton estimated that McDougal and Fulbright did approximately 300 different real estate development transactions like this.

One day the chairman of Union National approached Denton about another transactions involving McDougal. However, instead of Fulbright being the partner, the partner was Bill Clinton. This transaction turned out to be the first White Water purchase. Later, McDougal came into the institution to visit with Denton about a purchase of a condominium complex with Jim Guy Tucker. Denton stated the name of the condo was called Park Place Condominiums and the effort was to resell these units to individual businessmen in the Little Rock community.

Later, McDougal teamed with Steve Smith to buy the bank of Kingston, Arkansas. Smith served as an administrator aid to Bill Clinton in his first term as Governor for the state of Arkansas. Denton also recalled that Smith was politically involved in some of Fulbright's terms of office. McDougal quickly ran into problems with debt service and many of his loans became classified with different institutions. One of those classified loans was with the Citizens Bank in Flippin, Arkansas. Union National Bank purchased stock in Citizens' Bank that contained the large White Water development loan. McDougal then made a deal with Jim Guy Tucker to help him move his classified loans if Tucker helped McDougal with this task, Tucker would receive 100% ownership of the condominium complex and McDougal would retain all of the land in Marion County, Arkansas, which is where White Water exists.

When discussing Castle Grande Denton stated Bob Wilson came to the savings & loan in early 1986. Most of the transactions involving Castle Grande in 1985 had been completed or had the property resold by the time Wilson was at the institution. Ward negotiated the purchase of Castle Grande in an effort to get local banks off the hook of their loans. Castle Grande is associated with IDC. Ward also made statements that this purchase was at an extremely good price. IDC was is the business of warehousing land that could be bought at a low dollar figure for industrial development sites. IDC's first project was land on 65th Street which was a successful venture. They then turned to buy the tract of land on 145th Street which is known as Castle Grande. IDC made arrangements for several companies to build distribution sites on this property such as Levi Straus Jeans. When this project slowed, interest-payments on the property became a capital problem. Many area banks that held loans for IDC on this property were forced to charge off the interest and some principal. When asked who helped negotiate the legal aspects for IDC, Denton stated the name of Darrell Dover as representing IDC in Little Rock.

When the transaction to purchase IDC's interest in Castle Grande there was no counsel present. According to Denton, Seth Ward handled most of the negotiations. It was not known if anyone from the Rose law firm offered advice for counseling to Ward for this purchase. The transaction was originally closed by Beach Title Company in Little Rock. It was at this time when

Denton notified us that he held copies of records from Madison and that he would be willing to furnish those records to RTC upon receipt of an administrative subpoena.

Denton stated that he never met with anyone of the Rose law firm regarding Castle Grande or Castle Sewer & Water purchases. It was not known to him that Rose firm offered any advice to any Madison related individual. The sale of the sewer and water utility complex was termed highly informal. Denton stated that Attorney Dover could have handled the entire transaction on his own. Ward ended up buying all the property north of 145th Street and the sewer and water utility while Madison Financial purchased all the property south of 145th Street. Denton stated the purpose of this transaction in the structuring of this transaction was to avoid investment regulations by Madison Financial. Denton stated it was knowledge within the organization that Madison Financial could not buy the whole tract of land under the investment regulations.

Ward received commission on everything sold in the entire Castle Grande complex. However, Denton believed Ward was involved in some capacity with sales of tracts north of 145th Street. Denton agreed that the appraisals performed on this property were bad. Denton termed the appraisals as made to fit or MAI made as instructed. The primary appraisers were George Betts and Robert Palmer. When asked if there was any discussions about the appraisals, Denton stated that Sarah

Hawkins had issued several notices about needing to comply with regulations established by the Federal Home Loan Bank Board.

It was in Denton's opinion that the Ward's loans were made to warehouse property on behalf of Madison Financial that the loans Ward held on property in Castle Grande were to be the first loans taken out by sales. McDougal had to make the effort to reduce this \$1 million loan to Ward as it was on a non-recourse basis. McDougal knew that this loan would be classified by examiners if discovered.

Involving some of the subsequent sales to Tucker and Fulbright according to Denton, Madison Financial sold the property prior to actual ownership and had to have Ward complete the transaction after the fact in transferring the property to Madison Financial. To help correct this oversight and complete the deal, Denton was required to draw the necessary notes and order the necessary title work. Denton believed that McDougal called Fulbright and asked him to warehouse this land on his behalf with some form of guaranty of a profit at the end. These loans involving Fulbright were later paid off by the Stephens Bank possibly under the direction of Witt Stephens.

In addressing the sale of property to Davis Fitzhugh, the sales price was based upon the debt service needed. Denton admitted to drafting the notes for this transaction. The price was based on the cash received from Levi in rent that would be

available to pay a debt service. Denton viewed this entire transaction as a warehousing on behalf of Madison Financial. This Fitzhugh loan, Fulbright loan and Tucker loan were under the classification of do-it loans. Denton was basically told to do these transactions. However, he does not remember directly who gave him those orders.

In January of 1986 Madison Guaranty made a loan to Jim Guy Tucker in the amount of \$260,000. Of that, \$135,000 was for the purchase of land in the Castle Grande development. Another \$125,000 was to be for a feasibility study and land clearance. According to Denton this should have been stated in the loan documentation. However, according to Denton's memory, he thought the actual sales price of the property was only \$110,000 with the remaining \$150,000 for some unknown-use. His original thought was that the \$150,000 was for construction of a convenience store on this site.

In addressing that loan he stated that Dan Garner was the son of Irene Garner and that he at one time was a consultant to Tucker for his cable company. In Denton's view, Tucker was not a creditworthy individual. Many of Tucker's loans at the institution were objected to by Denton. When his objections became too numerous, McDougal removed him from handling any of the credits. This included all loans to Tucker's cable company.

SEN 21642

When asked why McDougal picked the locations that he did for his developments, Denton stated that if the dirt was cheap, McDougal was known to buy it. Most of McDougal's land purchases were based on some emotional reason versus logic reason. At one time McDougal was known to purchase land purely to help a friend out of a financial bind.

Madison Guaranty was at one time involved in a plan to open up a brewery with a William T. Lyons. Mr. Lyons currently had a brewery in Montecello, Arkansas and was wanting to transfer that brewery to the Little Rock area with the assistance of McDougal.

In discussing the sewer and water utility loan, Denton stated there were two loans, one for \$900,000 and one for \$150,000. There was also an additional \$150,000 obtained from the company owned by David Hale. Hale obtained these funds from a transaction in selling property to Dean Paul. The Dean Paul transactions was \$125,000 loan that helped Hale recapitalize his SBIC company and meet the necessary requirements to make an investment of this size. These funds also were part of the transaction in which Susan McDougal received \$300,000 under the name of Master Marketing which is a subject of a White Water development purchase in Little Rock, Arkansas.

According to Denton, International Paper Company had purchased a piece of property known as the Woodson Lateral Road tract. This property was located south of the Castle Grande

development. The Dean Paul loan for \$180,000 was secured by a portion of this tract of land in the Woodson lateral which had been purchased from International Paper. A portion of those proceeds were funnelled to David Hale who in turn loaned \$300,000 to Susan McDougal for the down payment of several acres adjacent to the Woodson Lateral area known as Woodson Heights. McDougal stated the sole purpose of this \$825,000 was to recapitalize the SBIC for the purpose of closing the two transactions for the benefit of Jim McDougal.

The first note to Davis Fitzhugh was non-recourse. This note was later exchanged for a recourse note for the purpose of the regulators. Denton received these orders to change the note from John Latham as Denton remembered this was to be a temporary move that would be reversed back to the non-recourse note after the examiners left the institution.

When asked about the hook-up arrangement with the sewer and water utility, Denton stated he only heard about this guaranteed hook-up after Jim McDougal was removed from the institution from Jim Guy Tucker. Denton stated that he could have possibly been involved in the documentation but did not remember the transaction. Denton heard there was originally to be \$250,000 loans from David Hale's Company, SBIC. One was the down payment loan which was used in the original purpose. The second loan was to be for working capital. However this second loan was

never completed. Denton speculated that SBIC did not have the necessary funds to make this loan.

When asked about booking the transaction, Denton stated that the transaction was booked on the S&L system to help make the appearance of a better capital position than actually existed.

Denton stated that Robert Wilson was a long-time mortgage banker in the Little Rock area. He had sold his business to First Commercial Bank and then joined Union National Bank in 1975 to help set up a mortgage business for that institution. Wilson was a member of the Union National Bank executive committee and long time friend to Denton and Seth Ward. Denton stated that all three had socialized on a frequent basis. Denton introduced Wilson to McDougal who in turn hired Wilson to evaluate and help with the Campobello development. Denton believed that Wilson may have assisted in finding the investment group of Head Harbor Holding Company for its investment in Campobello. Wilson and Seth Ward are both on the board of directors for the Little Rock airport and helped arrange Denton obtain his current position with the airport.

Wilson made a \$400,000 loan to Madison Financial secured by the Castle Grande property south of 145th Street. Denton stated that this loan was made in March of 1986 at the same time of the other deals with SBIC Company. Denton speculated that this may

have been to help capitalize the purchase of Woodson Heights by Susan McDougal. At the same time as this transaction, Wilson had made a loan to William Darby who was building a warehouse in the Little Rock area. Denton was soliciting business for the institution from Wilson. It was agreed that the institution would purchase this Darby loan from Wilson. Denton admitted never receiving approval; however due diligence and loan review was conducted on this transaction.

Denton stated the savings & loan did an abnormal amount of insider transactions as compared to other savings and loan. Denton characterized the savings and loan as a circus. He also repeated a comment by a Jim McDougal who said that the savings and loan was a candy store. Denton felt that the institution was obviously going to fail. However, at that time the whole S&L industry was facing financial problems.

When asked about the involvement of Sarah Hawkins, Denton stated that she was in need of a job and that at times she and Denton would "roll their eyes and say good lord" but her alternative was to quit.

Denton stated that he saw some of the paperwork involving Campobello but was not primarily involved in any of the transactions. He stated that the individual of Bob Wilson would be someone to visit with about Campobello. Bob Wilson's phone number is (501) 376-7166. He is currently the board director at

Citizens' Bank at 1542 Main Street. This is the old Madison Guaranty location. John Latham currently lives in a condominium on the river. Denton believed this name of the condominium unit was called River Walk. Denton was not familiar with Appraisal Associates and believed Kerr may have sold property at Maple Creek Farms. When asked about where the funds from the institution went from the 1985-86 period, Denton stated that Susan and Jim McDougal took out considerable amount of funds. Pat Harris took a chunk of money. However, Denton termed this as he stole money from the institution. Denton stated Ward did not receive much compensation. Denton received no money. Latham received very little and Greg Young did not receive much in the way of funds. At one time Denton estimated in January of 1987 the institution could have been salvaged for \$7 million in problem accounts.

Denton suggested the research of CE Ransom. He obtained an estimated \$400,000 and believed these transactions involving land in a hunt club or resort may be of suspicious nature. Denton stated that Andrew Clark only received funds by providing services to the institution through Quapaw Title Company. Denton stated that Jim Guy Tucker took out considerable amount of funds. However, an exact amount was unknown. Denton stated that if anyone were to question the activities of Tucker or John Selig in the institution, this was automatic grounds for resignation per McDougal.

However, this was possibly through McDougal's investment interest in North Central Arkansas. He believed Wade was on the board of the Flippin Bank which had made the original loan to White Water. When asked Denton was not familiar with the name Earl Stafford who was the father-in-law to Chris Wade.

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SEN 21648

Seth Ward
48 River Ridge
Little Rock, Arkansas 72207

September 24, 1985

Mr. James B. McDougal, President
Madison Financial Corporation
16th and Main Streets
Little Rock, Arkansas 72201

Dear Mr. McDougal:

This is to set forth our agreement concerning the property commonly referred to as all the land owned by the Industrial Development Company of Little Rock and certain improvements thereon.

On or about the 13th day of September, 1985, Madison Guaranty Savings and Loan Association agreed to acquire all of the Industrial Development Company of Little Rock's property except the grounds and building commonly referred to as the Timex Building. In the agreement Madison has the right to assign its rights to any entity or individual. As part of our agreement, I have agreed to take title to all of the assets of the aforementioned property that is located immediately north of 145th Street, the water and sewer improvements, and the sewer treatment ponds, including the one located south of 145th Street. Madison Guaranty Savings and Loan Association will agree to lend me the purchase price for this property secured by a mortgage of those parcels and the sewer and water works. Madison Guaranty will pay \$35,000.00 to me to have an option for at least 270 days from the date of acquisition to purchase the property from me at any time, in whole or in part, for at least the pro rata amount of the note plus all accrued interest; except one parcel described as follows:

PLAINTIFF'S
EXHIBIT

4

87-7590

Approximately 22 1/2 acres located and referred to as the Northeast Quadrant of the Interchange of Highway 65 and 145th Street. More specifically described in the attached legal description which is a part of this agreement.

It is the intention of both Madison and myself to attempt to develop all the property acquired from I.D.C. and sell it as quickly as possible. If the property or any portion thereof is sold during the 270 day period, the sale price will be mutually approved by me and Madison Financial Corporation. The proceeds of the sale will be applied toward the promissory note, less a 10% sales commission to be paid to me. At Madison's discretion,

SW1-005

Mr. James G. McDougal
 September 24, 1985
 Page -2-

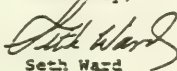
any particular piece of property may be deeded back to Madison prior to the execution of a sales transaction.

It is also agreed, in addition to the salary I am receiving from Madison Financial Corporation, I will receive 10% sales commission on all property sold, regardless who sells it, except residential property that will be located south of 145th Street, in which case I will receive 4% commission if sold by any other person.

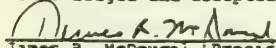
During the term of the option period, all of the net revenues of the water works and sewer department shall be forwarded directly to Madison Guaranty for application toward the note, unless such facilities are sold sooner. Madison Financial Corporation will also be responsible for all taxes, special assessments, dues, insurance premiums, etc. during the period of this option.

I would appreciate your acknowledging and agreeing to the terms of the letter of agreement.

Sincerely,


 Seth Ward

Acknowledged and accepted:


 James B. McDougal, President
 Madison Financial Corporation

SWI-006

Addendum to Agreement Between
Seth Ward and James B. McDougal
September 24, 1985

(Little Rock South Industrial Park, NE Corner 65-167 & 145th)

LEGAL DESCRIPTION -

Part of Tracts 27 & 28, Holman Acres, Pulaski County, Arkansas, more particularly described as: Starting at the intersection of the north right-of-way line East 145th Street and the west right-of-way line of Dineen Drive, said point also being the Southeast corner of the Birch-Brooks, Inc. property; thence N 0 deg. 21 min. E along the west right-of-way of Dineen Drive 373.12 ft. to the Northeast corner of said Birch-Brooks, Inc. property and the point of beginning; thence N 89 deg. 50 min. 30 sec. W, along the north line of said Birch-Brooks, Inc. property 303.50 ft. to the Northwest corner thereof, thence S 0 deg. 05 min. 30 sec. W along the west line of said Birch-Brooks, Inc. property 255.25 ft. to a point on the north right-of-way line of U. S. Highway No. 65-167; thence N 23 deg. 33 min. 10 sec. W, along said north right-of-way line, 111.57 ft. to a point; thence N 89 deg. 39 min. 40 sec. W and continuing along said north right-of-way line, 650.87 ft. to a point; thence N 54 deg. 01 min. 20 sec. W and continuing along said north right-of-way line 111.29 ft. to a point on the east right-of-way line of said U. S. Highway No. 65-167; thence N 2 deg. 29 min. 48 sec. W along said east right-of-way line, 835.63 ft. to a point; thence S 89 deg. 55 min. E along the south property line of the Siemens-Allis, Inc. property and said south line extended Westerly, 1191.02 ft. to a point on the west right-of-way line of Dineen Drive; thence S 0 Deg. 21 min. W along said west right-of-way line 310.35 ft. to a point; thence Southwesterly and continuing along said west right-of-way line, being the arc of a 715.66 ft. radius curve to the right, having a chord bearing and distance of S 8 deg. 21 min. W, 199.20 ft. to a point; thence S 16 deg. 21 min. W and continuing along said west right-of-way line, 10.0 ft. to a point; thence Southwesterly and continuing along said west right-of-way line, being the arc of a 715.79 ft. radius curve to the left having a chord bearing and distance of S 8 deg. 21 min. W, 199.23 ft. to a point; thence S 0 deg. 21 min. W and continuing along said west right-of-way line, 25.88 ft. to the point of beginning, containing 22.5649 acres more or less.

SW1-007

Page -2-
Mr. Jim McDougal
September 24, 1985

During the term of the option period, all of the net revenues of the waterworks and sewer department shall be forwarded directly to Madison Guaranty for application toward the note.

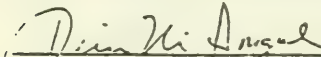
I would appreciate your acknowledging and agreeing to the terms of this letter agreement.

Sincerely,


Seth Ward

SW:ss .

Acknowledged and accepted.



Jim McDougal, President
Madison Financial Corporation

September 24, 1935

Madison Guaranty, Inc.
 1000 Broadway, New York, N.Y.
 Attention: Mr. J. H. [unclear]
 Dear Sir:

This letter is to set forth our agreement concerning the property commonly referred to as all the land owned by the Industrial Development Company of Little Rock.

On or about the thirty day of September, 1935, Madison Guaranty Savings and Loan Association agreed to sell, and the Industrial Development Company of Little Rock's Board of Directors agreed to buy the property. In the agreement, Madison has the right to assign its interest in the property to any entity or individual. As part of the agreement, I have agreed to take title to all of the property and to carry out all of the improvements, the water and sewer improvements, and the water and sewage treatment works located on the property. Madison Guaranty Savings and Loan Association will agree to lend me a loan of \$100,000.00, the purchase price secured by a mortgage on the property and the surrounding land.

Madison Guaranty will have an option for a lease of 25 years to purchase the property from me or any other person the property of the property is all located within the city limits of Little Rock, Arkansas, and within the city limits of the property located from 1935, the property will be quickly and easily sold. In the event of the sale of the property or any portion thereof during the life of the option, the sale price will be mutually agreed upon by me and Madison Financial Corporation. The proceeds of any sale will be applied toward the promissory note. A ten percent commission to be paid to me if the property is sold by me, or at Madison's discretion, the commission shall be paid to the property may be decided upon by me or Madison. In the event of the sale of the property, the proceeds will be paid to Madison Guaranty, less the commission to the other seller, and a four percent commission to me.

It is also agreed, in addition to the salary I am receiving from Madison Guaranty, on all property acquired from 1935, sold either by me or by Madison Guaranty after the exercise of Madison's option, or on other portion of the property already acquired by Madison from 1935, I shall receive a ten percent commission on said sale if it is sold by me, and four percent commission if it is sold by anyone else.



SWL-008

FDICFederal Deposit Insurance Corporation
Washington, D.C. 20429

Office of Inspector General

June 13, 1996

Joseph Kolinsky, Chief Clerk
Senate Special Committee to Investigate Whitewater
Development Corporation and Related Matters
534 Dirksen Office Building
Washington, D.C. 20510

Dear Mr. Kolinsky:

Pursuant to the request of the staff on behalf of the Special Committee, enclosed are copies of FDIC OIG Memoranda of Interview for Harry Don Denton, June 3, 1996 and June 11, 1996, and James Clark, June 10, 1996. The names of the interviewing OIG personnel have been redacted. If you wish an unredacted copy, we will provide that to you. I have also enclosed, as requested, documents provided to us by Pillsbury, Madison and Suttro, LLP, in response to our request for all documents produced to them by Mr. Denton.

The enclosures contain information relating to an open investigation and which is subject to the exclusions from disclosure under the Privacy Act and the Freedom of Information Act. Accordingly, we request that these documents be accorded the highest level of confidentiality possible under the rules of the Special Committee.

Sincerely,



Patricia M. Black
Assistant Inspector General

cc: Gaston L. Gianni, Inspector General
Steven A. Switzer, Deputy Inspector General
Robert J. Giuffra, Chief Counsel
Lance Cole, Democratic Deputy Special Counsel

FDICFederal Deposit Insurance Corporation
Washington, D.C. 20420Office of Investigations
Office of Inspector General**MEMORANDUM OF INTERVIEW**

INTERVIEW OF JAMES T. CLARK	DATE OF INTERVIEW June 10, 1986	INTERVIEWED BY [REDACTED]
INTERVIEW HELD AT Washington, D.C.	PEOPLE PRESENT N/A	

JAMES T. CLARK, National Bank Examiner, United States Office of the Comptroller of the Currency (OCC), Kalamazoo, Michigan Duty Station, was interviewed on June 10, 1986 by [REDACTED] and [REDACTED]. CLARK had been identified as the Examiner in Charge of the 1986 examination of MADISON GUARANTY SAVINGS AND LOAN (MGSL) that was conducted by the Federal Home Loan Bank Board (FHLBB). CLARK was advised that he was to be questioned concerning activities of MGSL he may have become aware of during the examination.

CLARK said that he was employed by the FHLBB from 1973 to approximately 1986 as a Senior Field Examiner at the FHLBB 8th District at Indianapolis, Indiana. From approximately 1986 to approximately 1989, he was administratively transferred to the Federal Home Loan Bank of Indianapolis and performed the same duties. After the enactment of FIRREA, his position was transferred to the Office of Thrift Supervision (OTS) in Indianapolis. In December, 1990, he left for private industry. In January, 1992, he began work with the OCC as a National Bank Examiner.

CLARK recalled the examination of MGSL commenced on the first business day after March 4, 1986. He stated that he was the Examiner in Charge of the examination and, as such, spent time on site at the institution. He said that a request letter would have been sent to the institution prior to the arrival of the examiners advising them of the pending examination. CLARK said that it was standard policy to set the "as of" date, that date on which any transactions or documents in institution files would be subject to review, would be the last day of the previous month. CLARK said that in this case that date would be February 28, 1986, and he believed that the request letter would have advised MGSL of that "as of" date.

CLARK said that he wrote three approximately monthly interim reports and a final report detailing the findings of the examination.

CLARK was asked whether he was familiar with a purchase of property or assets referred to as IDC by MGSL or its affiliate MADISON FINANCIAL CORPORATION (MFC) from the examination. He stated that he was. He recalled that the IDC was an independent developer that owned property, some industrial buildings, and a water and sewer system south of Little Rock. He also recalled that there were some non-contiguous parcels held by IDC. CLARK said that he understood that by the mid 1980's, the industrial development was not doing well, and that MADISON purchased it as a part of a workout agreement. CLARK said that, as an entity of MADISON, he knew the entire IDC property that had been purchased as CASTLE GRANDE.

CLARK said that soon after the examination began, he observed from institution records that a lot of loans were being made in the area directly surrounding MGSL, the QUAPAW Quarter. CLARK said that when loan

FOR AGENCY USE ONLY

FILE NUMBER WA-94-0018	DATE TRANSCRIBED June 11, 1986	PAGE 1 OF 10
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AGENT'S SIGNATURE(S)
[REDACTED]

CONTINUATION SHEET		PAGE 2 OF 10
INTERVIEW OF	DATE OF INTERVIEW	FILE NUMBER
JAMES T. CLARK	June 10, 1986	WA-94-0016

files began to be reviewed, it was noticed that many of the requisite documents, such as down payment and disbursement documents were not in the files. He said that it was decided that a project known as 1308 Main Street was chosen for a review. He said that a number of relevant loan documents were not in the file, so they began to track down the information at title companies, and by reviewing the check processing system. He said that the review of the financial situation disclosed a "series of flips" of the property.

CLARK said that from what he had seen in the first three weeks of the examination, he developed a theory concerning the operation of MGSL. He said that he considered it a "ratchet and house rake off" scheme, by which deposits were put into development projects, the profits from sales were booked, allowing the institution to increase its net worth, obtain more deposits and continue the cycle; while at the same time, institution insiders had money flowing to them through other institution entities.

CLARK said that to test the theory, CASTLE GRANDE and the developments known as MAPLE CREEK, and 12th and MAIN were chosen for review.

CLARK said that he was familiar with subsidiaries of MGSL, such as MFC and MADISON REAL ESTATE. He said he was initially advised by people at MGSL that the subsidiaries were actually separate companies owned by people he had come to believe were insiders.

CLARK said that when he tried to locate corporate records of the subsidiaries at MGSL, as he would have suspected them to be maintained, he found that he could not. He stated that the search was expanded to sources outside of the institution, trying to trace a money flow to insiders. He said that he found indicators that the subsidiaries were "shams...shells...no real existence." He said that at a May 29, 1986 management conference attended by MCDOUGAL, see below, he advised MCDOUGAL that the subsidiaries could represent a conflict of interest, and was then told by MCDOUGAL that the subsidiaries were really MGSL entities, so that in dealing with the subsidiaries, MGSL was in effect doing business with itself.

CLARK said the first interim report done by the examiners in approximately early March, 1986 was substantive and reported these and the other findings made to that date.

CLARK was asked why he dealt with MCDOUGAL on questions concerning MGSL when MCDOUGAL had ceased to be an officer of MGSL subsequent to a 1984 examination of MGSL by the FHLBB. CLARK said that MCDOUGAL had not been removed by the FHLBB, was still the primary stockholder in MGSL, and had stayed as President of MFC. CLARK said that although he was not able to ultimately pierce the corporate shell among MGSL and the subsidiaries, his contention was that MCDOUGAL and the HENLEY's were the controlling group at MGSL.

CLARK said that, at least for the May management meeting, he requested that MCDOUGAL attend. He said that at an April 11, 1986 management meeting, see below, someone from the institution may have requested that MCDOUGAL attend.

CLARK said that he was familiar with JOHN LATHAM as the President of MGSL, and had met with him on a regular basis during the examination. He said that he felt that LATHAM spoke on behalf of MGSL, but he believed that decisions were made by MCDOUGAL.

CLARK was asked if he was familiar with SETH WARD. He said that he was. He said that he believed that WARD may have acted as the go between with MFC and MCDOUGAL for the purchase of CASTLE GRANDE.

CONTINUATION SHEET		PAGE 3 OF 10
INTERVIEW OF	DATE OF INTERVIEW	FILE NUMBER
JAMES T. CLARK	June 10, 1988	WA-94-0016

He said that he was also aware that WARD had acted as a "straw" buyer of CASTLE GRANDE property on behalf of MFC.

CLARK was asked what he meant by a "straw" buyer. He said that a straw buyer is a "buyer who has no real monetary or other interest in the property but who is acting as a front for the real purchaser who does have an interest."

He was asked what banking regulation would be violated by a "straw" purchase, and said that it would be a violation if it caused false loan documents to be produced. He said that it would depend on the specific loan, and said that he did not believe that MGSL was cited in the 1988 examination for "straw" purchases singularly.

CLARK was asked what banking regulation would be violated by the institution in utilizing a "straw" buyer. He said that general regulations addressed a transaction with an affiliated person, and that a specific regulation called for all transactions to be executed with the safety and soundness and best interests of the institution in mind.

CLARK was asked if he had encountered "straw" purchases at any of the examinations at other institutions that he had examined and said that he did not believe that he had.

CLARK was asked whether he was aware during the MGSL examination of any restrictions on direct investments in subsidiaries by the institution. He said that there was a direct investment restriction on federally chartered thrifts, which MGSL was not. He recalled that at some time during the examination he learned that there was an Arkansas state restriction on direct investments.

CLARK was asked if he recalled the issue of potential direct investment violations coming up in the MGSL examination. He recalled that had MGSL purchased CASTLE GRANDE directly, they would have exceeded their direct investment limit.

CLARK was asked what effect violating a state regulation would have on a federal examination. He said that internal FHLBB procedures called on an institution to be in compliance with state regulations. He said that violating the state regulation would mean that the institution was not operating safely and soundly.

CLARK was shown a copy of April 30, 1986 handwritten notes titled "Reconciliation of Service Corporation Investment". He recognized the handwriting as his. He was questioned concerning a note at the bottom of the page that indicated that MGSL was not subject to the state direct investment limitation, but that there apparently was a state restriction limiting the allowable investment to 6% of gross assets. The note also indicated that LATHAM reported that the state limitation had been waived at MGSL by state authorities.

CLARK said that he did not specifically recall the reported conversation with LATHAM, but did recall attempting to track down the ARKANSAS regulation. He said that if he had been told that the state regulation had been waived he might ask for documentation, but could not recall if he had done so in this matter.

CLARK was asked why an institution might use a "straw" purchaser when it is lending all of the money and said that avoidance of direct investment regulations could be one reason. CLARK was asked if he was ever told that the CASTLE GRANDE purchase was structured to avoid a direct investment limitation and said he had not been. He said that if he had mentioned direct investment in one of the interim or final examination report,

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It would have been because someone told him or that he had seen it in Institution records.

CLARK was shown a passage from page 11 of the May 8, 1986 Interim report that read that "Ward apparently warehoused this land to reduce Madison Financial's investment and the attendant borrowing from Madison Guaranty. In this way, limitations on Madison Guaranty's investment in its service corporation are avoided." CLARK said that was consistent with recollection of WARD's role in the purchase.

CLARK said that by the time of the May 8, 1986 Interim report, the examination had determined that the three projects that had been under review would seriously impair the net worth of the Institution.

CLARK said that in the initial stages of the investigation, he had decided that the examiners would not seek direct responses to questions or advice of concerns that they had for fear that records would be hidden or destroyed if the areas they considered problems were evident to Institution personnel. He was asked if he had any specific knowledge of documents being hidden or destroyed at that point and said he did not. He said that they had some trouble in obtaining requested loan files, and suspected that documents may have been added or removed. He repeated that he had no specific recollection of documents being hidden or destroyed, but recalled that some files were so devoid of documents that he questioned why all of the information was missing. He also recalled feeling that if the documents existed, they were never put in the file and he questioned whether an Institution that would not comply with basic regulations might remove or destroy files that were present.

CLARK was asked if there came a time when he thought the examination was being obstructed. He said he had no specific recollection, but that it was just an accumulation of incidents involving dealing with MGSL management when he felt he was being lied to.

CLARK said that after the May 8, 1986 Interim report, he decided to shift the manner of conducting the examination to more direct contacts with MCDOUGAL and LATHAM about what their concerns were and what areas they were interested in so that their reactions could be noted. He said approval to do so required quite a bit of negotiation with the FHLBB in Dallas, Texas, who oversaw MGSL, because there was a restriction in place at that office at that time on discussing loan classifications with Institution personnel prior to FHLBB supervisory personnel signing off on the examination reports. He said he was eventually authorized to discuss the classifications at the Institution as long as it was made clear that the classifications were tentative.

CLARK was shown a copy of a May 29, 1986 file memorandum from him concerning a management meeting he reportedly held on that date with MCDOUGAL and LATHAM. At page one of the memorandum, CLARK wrote that they discussed his primary concerns in the examination; losses on real estate development projects, and substantial payments to apparent affiliated persons or affiliates. The memorandum further indicated that MCDOUGAL and LATHAM were advised that "We were recommending losses under the asset classification regulations that exceeded Madison's net worth on just the three projects reviewed to date."

CLARK was asked if he thought that there came a time during the examination when officers or employees of MGSL may have reasonably believed that there was a possibility that the Institution would be closed or that certain officers or employees would be removed.

CLARK said that by early May, 1986, he believed that some people were getting "antsey". He said they had not drawn any conclusions, but that they were asking questions of people in the Institution. CLARK referred to a copy of handwritten notes he had made while the examination was underway. In an entry dated May 12,

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1986, he wrote that LATHAM had questioned him as to how long the examination would continue, and when the examination could be discussed with management. LATHAM reportedly told him that employees felt frustrated that there had been no general grading of the association by the examiners, and that two had threatened to quit.

CLARK also noted the May 29, 1986 management meeting reported in the memorandum of that date. He said that he might not have said that the institution was in bad shape or that supervisory agents might take action, but felt that having pointed out that the three projects reviewed were classified as losses greater than net worth rendering the institution insolvent, and that they "certainly by May 29 knew" the institution was "in serious trouble."

CLARK said that at that time, closings or removals were occurring at institutions. He said that the regulation enabling examiners to classify loans had come into being in late 1985, and that examiners were using the regulation to render institutions insolvent. He said that the use of that regulation was the genesis of the FHLBB Dallas directive against discussing classifications with examiners.

CLARK was asked who at MGSL at that time might have reasonably expected a possibility of removal and he replied LATHAM and MCDUGAL. He was asked whether he thought Chief Loan Officer DON DENTON might have the same concerns and he said that it was possible. He also said that at some point, probably in June, 1986, the institution received a letter from the FHLBB Supervisory Agent advising them that a meeting would be held in DALLAS on July 11, 1986.

CLARK was questioned about a reference at page three of the May 29, 1986 memorandum stating that "Latham stated that a subordinated debt issue had been held back because of the difficulty in finding an underwriter for such a small issue (\$3 to 4 million)".

CLARK did not recall the statement in any more detail than reported in the memorandum. He said that he recalled that MGSL planned to increase its net worth by growing the institution, but that regulations required greater capital first. He said that he believed that the debenture issue may have been discussed with FHLBB Dallas previously, and that the institution may have submitted a growth plan or business plan in furtherance of the plan.

CLARK was asked if he was aware of any previous plans by MGSL to raise capital. He recalled that MGSL considered a number of ideas, "none practical". He said that it was his belief at the time of the examination that the plans were an attempt to forestall supervisory action of one type or another so that more funds could be diverted from the institution. CLARK stated that the longer the "meter runs" in a "ratchet and rake-off" scheme, it would be in the "McDougal/Henley group's interest to keep it running because the longer it ran, the more money out" and that "delay for them" was "a tactic that could be used".

CLARK was asked if he recalled any law firm working on any such capital raising issue for MGSL and said he could not. He said that if he had been told about attorneys working on such an issue he may not have considered important to note the attorney's names.

CLARK was asked if he recalled any discussions with state regulators in any of the capital raising plans. He said he could recall no such discussions.

CLARK said that at some time after the May 29, 1986 conference with LATHAM and MCDUGAL, he

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forwarded the "as of" date to April 30, 1986, bringing into the scope of review transactions and documents first at the institution after February 28, 1986.

CLARK was shown a copy of a letter dated June 3, 1986 letter that he wrote to LATHAM requesting documents that had previously been requested by the examiners in the May 29, 1986 management meeting. CLARK said it was consistent with his recollection that by that time he had decided to make requests for information in writing.

CLARK was shown a copy of a June 5, 1986 letter from LATHAM to him. CLARK recalled the letter. In the letter, LATHAM referred to the June 3, 1986 CLARK letter, above, and said that some of the information CLARK had provided had already been provided to, and was in the possession of, the examiners. In the letter, LATHAM also referred to a May 21, 1986 discussion with CLARK wherein CLARK had reportedly said that he had not received all of the information requested, and asked that CLARK provide him a list.

CLARK was also shown a copy of a June 6, 1986 letter from LATHAM to him wherein LATHAM requested, among other things, that CLARK provide him a list of all sales at CASTLE GRANDE that were "straws".

CLARK recalled the letters. He said that he responded to those letters in a June 10, 1986 letter to LATHAM. In that letter, which CLARK was shown, he advised LATHAM, among other things, that he intended to send him two letters requesting additional information, the first of which would involve the three projects that had previously been reviewed. CLARK said that he did not want to provide LATHAM with the information concerning which transactions he thought were "straws" to LATHAM for fear the loan files could be doctored.

CLARK said that by that time, he had decided to go to written request of LATHAM rather than verbal because the responses from MGSL kept changing. CLARK also said that at that time he was still waiting to get authority to discuss the classification issues with MGSL management. He said LATHAM was becoming more aggressive questioning what documents the examiners wanted, why they wanted them, and what conclusions they were coming to. He said that he believed that LATHAM wanted to know what conclusions the examiners were coming to so that they could contact FHLBB Dallas directly on issues in contention.

CLARK was shown a copy of a June 17, 1986 letter from him to LATHAM wherein he requested specific information, including information concerning a number of CASTLE GRANDE related loans. CLARK recalled the letter. He said that it was the first letter he had referred to in his June 10, 1986 letter to LATHAM.

CLARK was asked why he requested information on what purchases were financed, the down payment, and the source of funds for several loans, including the WARD loan, #2882, that financed the initial purchase of CASTLE GRANDE. He said that it was because these were the loans that they believed after tracing the cash were "straw" loans.

He was asked why he requested the purpose for the use of the proceeds of the loan and said that it was to determine whether MGSL received any value for its money.

He was asked why he requested plats, mortgage surveys and other drawings that showed the boundaries of the property purchased by WARD and MFC from IDC. He said that it was because the examiners had attempted to trace the series of transactions to determine who actually bought what property, but that there had been overlap on the property descriptions that were available.

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CLARK was questioned concerning notes he made June 20, 1986 concerning CASTLE GRANDE. In the notes is a comment that the CASTLE GRANDE files had been rearranged since their earlier review by the examiners. The comment indicated that the rearrangement may have occurred while institution employees were preparing a response to examiners.

CLARK recalled that the files had been rearranged, and that memoranda dated June 2 and June 13, 1986 that were attached to his notes, had not been in the file when it was originally reviewed. The memoranda, which concern CASTLE GRANDE appraisals, were attached to CLARK's notes.

CLARK was shown a copy of a June 24, 1986 letter from LATHAM to him that was a response to CLARK's letter of June 17, 1986. Included in the response was a statement that WARD loan #4027 would be repaid "From the sale of real estate that is under option to Madison Financial Corporation; If option is not recognized, from sale of real estate to other investors". CLARK recalled the letter. CLARK said he had asked for an explanation of the source of the funds for repayment because he was trying to trace the source of funds going into and out of the project. The letter also contained a response concerning the disbursements of the proceeds of WARD loan were used in part to make a loan to the WILSON company. CLARK said he conducted an analysis of the responses by LATHAM in a file memorandum dated June 26, 1986.

CLARK was shown a copy of the June 26, 1986 analysis and recalled that it was the analysis he performed. CLARK said that he thought that he thought that a series of transactions between MGSL, MFC, WARD and WILSON was designed to channel funds into MFC in a manner to disguise that it was an actually a direct investment of MGSL in MFC. He wrote in his analysis that the response to his inquiry in the above described June 24, 1986 letter from LATHAM confirmed in part his belief that the transactions were an attempt to disguise a direct investment.

CLARK also wrote in the analysis that the property descriptions of CASTLE GRANDE property were not concise, and that information provided by LATHAM in the June 24, 1986 letter were not sufficient to clarify the boundaries. CLARK explained that in April, 1986, the examiners had been attempting to construct concise property descriptions and found that they could not. He said they were using the information provided by the institution when the "as of" date for materials was February 28, 1986, and did not believe they had tried to trace meets and bounds descriptions. CLARK was shown a copy of the property description of 27 and 28 Holman Acres that had been attached to the mortgage securing WARD loan 4027. He said that he had no particular recollection of the description.

CLARK said that it was only after the "as to" was changed from from February 28, 1986 to April 30, 1986 that he first became aware that loans had been made to WARD during the examination. He said that it was decided then to go back and review CASTLE GRANDE transactions for evidence of land flips.

CLARK was asked if he thought the fact that the WARD loan 2982 was paid off with funds from the sales of property to FULBRIGHT and CASTLE SEWER AND WATER all occurred on February 28, 1986, the day before the initial "as of" date may have been done to place the WARD loan into a paid off status to lessen the chance of examiner's scrutiny. CLARK said that he thought it reasonable.

CLARK was asked if he became aware during the examination that WARD believed that he had commissions due to him from the sale of CASTLE GRANDE property.

CLARK said that the first time he became aware of commissions due to WARD was in approximately mid-May,

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1986. CLARK said at that time, he and other examiners were at MGSL after the Institution employees had left for the day. He said that they were checking the drawers of desks in their area to store their working papers when an examiner discovered certain documents. CLARK said that he reviewed the documents and discovered one was a September 24, 1985 letter from WARD to MCDUGAL that set out an agreement by which the IDC property would be purchased. CLARK was shown a copy of a September 24, 1985 letter from WARD to MCDUGAL, that did not caveat that WARD would retain 22.5 acres. CLARK said that letter was among the documents discovered. He said that it was the first indication he had concerning the commissions.

CLARK identified a July 1, 1986 file memorandum as one he wrote. The memorandum, at page two, discussed the discovery of the documents found in the desk drawer and identified the September 24, 1985 letter as being among them. The memorandum also referred to a June 24 letter from WARD to MCDUGAL reaffirming their CASTLE GRANDE agreement. CLARK wrote in the letter that the agreement was dated after the May 29, 1986 management conference when he had discussed concerns about "straw" purchases, and the June 17, 1986 letter he sent to management requesting information about WARD and CASTLE GRANDE. CLARK wrote that the examiners, through June, 1986 had found no evidence of commissions paid WARD, and that he thought that the reaffirmation letter may have been an attempt by management to evidence a continuing involvement in CASTLE GRANDE. CLARK confirmed that he wrote the memorandum and recalled that the events occurred as written.

CLARK said that he believed that the first time Institution people were made aware of the discovery of the documents was at the July 11, 1986 supervisory meeting at Dallas. He said that he was not certain if the specific subject of the September 24, 1985 WARD letter or of commissions was raised, but believed that they were.

CLARK was shown a copy of the September 24, 1985 letter from WARD to MCDUGAL that contained the caveat concerning the 22.5 acres and was asked if he recalled seeing it or the attached property description in the Ward loan 4027 documents. He stated with reference to the letter "I don't recall ever seeing it", but was knowledgeable at the time about the 22.5 acre parcel.

CLARK was shown a single page of notes that contained at paragraph 2 information concerning an option agreement on the 22.5 acre parcel. The notes indicate that the writer discussed with someone that MFC wanted to purchase the WARD property, but that WARD had another buyer and would not consummate the sale for tax purposes. The note refers to a WARD attorney preparing an option to purchase the property. The note also referred to a loan to WARD that was unconnected and was to pay off loans on personal property.

The note also refers to a loan to MFC for \$370,000 executed to guarantee the purchase of real estate pending the completion of the option. CLARK was shown a copy of the MFC notes to Ward and asked if he recalled them. He stated that he did. He was asked what he recalled about these notes. He stated that his concern as an examiner was whether the notes represented independent financing of MFC by Madison Guaranty. He would be concerned about where Ward came up with the cash and that the examiners would be concerned that the proceeds came from Madison Guaranty. The examiners would be concerned whether the loans between Ward and Madison Guaranty, and from Ward to Madison Financial, were connected in some fashion.

The note from the examination workpapers is not dated. At the bottom of the page is a note in different handwriting. That note is dated April 29, 1986. It indicates that "Darlene" spoke to DON DENTON about the option and had been told that the option had not yet been prepared, but that he would get it to the examiners. The note also referred to two notes that would not be funded.

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CLARK confirmed that he wrote the first note. CLARK said that the name of the attorney that appears in parenthesis in his notes is "HUBBELL". He said that he did not recall the specific discussion, but recalled the situation. He said that he became aware that MFC had borrowed \$300,000 and \$73,000 from WARD in April, 1986 and was attempting to determine whether the borrowing was connected to the \$400,000 loan MGSL made to WARD on March 31, 1986. He recalled that he was told during his inquiries that the notes were not connected and that loan #4027 was not related to the Ward loan to Madison Financial. CLARK was not sure, but believes he was talking to DENTON when he wrote the notes.

CLARK did not specifically recall the notes by "Darlene." He said that was DARLENE FORD, an examiner who assisted him on the examination. He believed that he may have asked FORD to follow up on what he had been told about the option.

CLARK was asked to outline his understanding at the time of the examination of the relationship between loan #4027 and the Ward to Madison Financial loan. CLARK stated again that he was told that the loans were "completely separate deals". Madison's "excuse" for loan #4027 was that it was "not connected to the Ward-MFC" loan, but was to enable WARD to payoff other loans or debts. CLARK stated that Madison's "excuse" for the Ward-MFC loan was "MFC wants to buy land from Ward, they're going to write option agreement, Ward wants a guaranty of performance on the option, and that is the reason for this note -- in the fullness of time, note will not be funded because the option will be exercised and WARD paid then, and the note will be cancelled." CLARK was asked whether this was an unusual arrangement, and he responded that it "Makes no sense at the time, less now", especially when the property securing loan #4027 was the same land subject to the option.

CLARK was read portions of testimony by LATHAM concerning the connection between WARD loan 4027 and the two notes made by WARD to MFC, and that the loan 4027 was a way to pay WARD commissions. He said that he had not been aware of that reported connection between the loans. He said that if he had known, he would have called the transaction a direct investment in MFC by MGSL. He said that MGSL should have shown the notes from WARD listed on their books as accounts receivable. CLARK stated that the testimony "cannot jibe with what was said" to the examiners.

He said that if he had known about the commissions, at the very least he would have called it a direct investment by Madison Guaranty into MFC because MGSL would be funding MFC's obligations, and he would have been asking what WARD did to earn the commissions, and that the commissions would have been a further indication that WARD was a "straw" buyer in the IDC purchases. He also said that if the loan had been made to pay commissions, he would have considered the loan "deceptive on its face." CLARK stated it would violate regulations that required transactions to be fully and completely documented so that their true nature is apparent to the examiners and anyone else. CLARK said that there was no way that the oral testimony was consistent with what he had been told during the examination. CLARK stated that "connection was the very point he was seeking and they're saying in the examination -- no." CLARK also indicated that being used what he had now learned the option was created "in order to conceal the connection -- whatever it was -- between #4027 and Ward-MFC".

CLARK was asked about the possible use of the May 1, 1986 option to establish a value for the property for the benefit of the examiners. CLARK stated that he "would not have credited the value based on the option price".

CLARK was shown a copy of the front page of a version of the May 1, 1986 option that had a note by FORD

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indicating that she had talked to DENTON about the description being wrong. He had no particular recollection of the note or the circumstances.

CLARK was asked whether he was aware of WARD being released from personal liability on three of his loans in June, 1986. He said he had not been, and likely would not have seen the releases because the "as of" date at that time was April 30, 1986.

CLARK was asked whether he dealt with any state regulators during the examination.

He recalled the involvement of BEVERLY BASSETT, the Arkansas Savings and Loan Supervisor. He said that shortly before the July 11, 1986 meeting at FHLBB Dallas between MGSL officials and FHLBB supervisory agents, he was told by supervisory agent CHIP KEISWETTER, that BASSETT had requested that she attend the meeting. CLARK said that KEISWETTER indicated that he was concerned because in other cases, Texas regulators had attended the meetings and had taken the side of the institutions. CLARK was asked if it was common for state regulators to attend the supervisory meetings. He said that this instance was the only one he was involved in Texas, but that the practice was relatively common in other FHLBB districts.

CLARK said that on another occasion shortly before the meeting, one of the examiners involved in the examination had indicated a concern to him that BASSETT had previously done work for MGSL on the CAMPOBELLO project, specifically concerning an interstate issue, and that the examiner had thought it represented a conflict for BASSETT. He recalled that BASSETT had been working at MITCHELL, WILLIAMS when that occurred. CLARK said that he believed that he relayed that concern to KEISWETTER, and that KEISWETTER brought it to BASSETT's attention. CLARK did not know what the result was, but recalled that she did attend the meeting.

FACSIMILE TRANSMITTAL SHEET

DATE 6-13-96OPERATOR 228-608020TO FAX TEL. NO. 228-0017FROM FAX TEL. NO. (202) 416-4261FROM: Pit Clark

ADDRESS:

Federal Deposit Insurance Corporation
Office of Inspector General
Attn: Addressee's name
801 17th Street, N.W. (RM:)
Washington, D.C. 20434-0001

TEL. NO.

(202) 416 - Alice Fisher

TO:

Louise Cole

ADDRESS:

ROOM NO.:

TEL. NO.:

corrected page
8 -- line 21
original had the
date "July 14"
which is corrected
to "July 11"

NUMBER OF PAGES TRANSMITTED: 1
(Including the Transmittal Sheet)

DELIVERY INSTRUCTIONS: _____

ACKNOWLEDGEMENT REQUIRED - VERBAL: ✓

- WRITTEN: _____

- NONE: _____

Rock office. Present were John Latham, Don Hawkins, Don Denton. The following actions were taken on loans:

APPLICANT: Seth Ward
 PURPOSE: Consumer/Personal Use
 AMOUNT: \$400,000
 COLLATERAL: Based on borrower's financial ability additionally secured by two tracts of land at 145th Street, Little Rock, Arkansas--no appraisal
 TERM: \$400,000 @ 12% for 60 days
 CREDIT
 PROCEEDS: Pay a personal debt
 Pay income taxes
 Purchase airplanes
 ACTION: All members approved
 APPLICANT: Abeles, Inc.--Jack Patterson, principal (past credit customer with Madison--see MS Limited Partnership loans)
 TERMS: \$350,000 @ 10.5%, 30 year loan
 COLLATERAL: Robert Palmer: \$600,000 sales value
 Discounted value:
 8 condominiums @ 12 & Louisiana
 PURPOSE: Purchase and improvements
 Purchase price \$290,000
 ACTION: Community Development Loan.
 All members approved.

S. H. H.

DP 0000000000

IN WAKU
RIVER RIDGE ROAD
LITTLE ROCK, ARKANSAS 72207

MADISON GUARANTY S & L ASSN
16TH & MAIN - P. O. BOX 1583
LITTLE ROCK, ARKANSAS 72203

Loan Number
Date MARCH 31, 1986
Maturity Date MAY 30, 1986
Loan Amount 400,000.00
Renewal Of

BORROWER'S NAME AND ADDRESS
includes each borrower above, jointly and severally

LENDER'S NAME AND ADDRESS
"You" means the lender, its successors and assigns

I promise to pay to you, or your order, at your address above, the principal sum of

FOUR HUNDRED THOUSAND AND NO/100

Dollars 400,000.00

Interest from MARCH 31, 1986 at the rate of 12.000 % per year until MAY 30, 1986

Additional Finance Charges (if any) which total

☐ on demand (b) ☒ on demand, but if none is made, on MAY 30, 1986 (c) ☐ on _____ I will pay this amount as follows

If (a), (b) or (c) is marked, I will pay accrued interest

☐ in _____ installments of \$ _____ each, beginning _____ and continuing on the same day of each _____ month

☐ _____ thereafter, until _____ when a final payment of \$ _____ will be due

(other) _____

TERMS Each payment when made shall be applied first toward accrued finance charges, the remainder of each payment being applied to reduce the principal balance. The final payment may be more or less than the amount scheduled depending upon my payment record.

FREQUENCY AND DEFAULT I agree to pay the costs you incur to collect this note in the event of my default, including your reasonable attorneys' fees.

checked, I agree to pay a late charge of 5.000 of the amount of a payment which is not made within 10 days of when it is due, up to a maximum of \$ N/A

checked, I agree to pay interest at the rate of 12.000 % per year on the balance of the note remaining unpaid after final maturity, including maturity by acceleration.

I MAY PREPAY THIS NOTE IN WHOLE OR IN PART AT ANY TIME. Any partial prepayment will not excuse any later scheduled payments until this note is paid in full. There will not be a refund of any additional finance charges listed above.

☒ I WILL NOT BE CHARGED A PENALTY FOR PREPAYMENT, IF I DO SO.

☐ I agree to pay a minimum interest charge of \$ _____ if I pay this loan off before you have earned this amount in interest.

THE PURPOSE OF THIS LOAN IS BUSINESS INVESTMENT

ANNUAL PERCENTAGE RATE
The cost of my credit
as a yearly rate is 12.000 %

FINANCE CHARGE
The dollar amount the
credit will cost me 7,890.41

AMOUNT FINANCED
The amount of credit
provided to me or on my behalf 400,000.00

TOTAL OF PAYMENTS
The amount I will have paid when
I have made all scheduled payments 407,890.41

I have the right to receive at the time of termination of the loan the amount financed.

Number of Payments	Amount of Payments
1	407,890.41
2	
3	

When Payments Are Due
MAY 30, 1986

When Payments Are Due

When Payments Are Due

"a" means an estimate
Filing Fee
Non-filing insurance

☒ This note has a demand feature

☐ This note is payable on demand and all disclosures are based on an existing major asset of property.

Security: I am giving a security interest in

☒ the goods or property being purchased

☒ collateral securing other loans with you may also secure this loan

☒ my deposit accounts and other rights to the payments of money from you

to Charge: ☒ I will be charged 5.000 % of the amount of a payment which is more than 10 days late, up to a maximum of \$ N/A

payment, if I pay off this note early, I

☐ may

☒ will not

have to pay a penalty

☐ may

☒ will not

be entitled to a refund of part of the finance charge

Assumption: Someone buying my home ☐ may, subject to conditions, be allowed to ☒ cannot assume the remainder of the mortgage on the original terms

to see my contract documents for any additional information about nonpayment default, any required repayment before the scheduled date, and prepayment refunds and penalties.

Insurance: Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless I sign and agree to pay the additional cost

Type	Premium	Term	Signatures (or Initials)
credit life			I want credit life insurance <input checked="" type="checkbox"/>
credit disability			I want credit disability insurance <input checked="" type="checkbox"/>
credit life			I want joint credit life insurance <input checked="" type="checkbox"/>

Itemization of Amount Financed
Amount given to me directly 400,000.00 (a)
Amount paid on my account (b)
Amounts paid to others on my behalf (c)
To Property Insurance Company (d)
To Credit Life Insurance Company (e)
To Disability Insurance Company (f)
To Public Officials (g)
Prepaid Finance Charge 400,000.00 (h)
AMOUNT FINANCED (a through h) 400,000.00 (i)
Finance Charge (include prepaid) 7,890.41 (j)
Total of Payments (i + j) 407,890.41 (k)

not want: _____ Credit Life Ins. _____ Credit Disability Ins. _____ Joint Credit Life Ins.

Property Insurance: I may obtain property insurance from anyone I want that is acceptable to you. If I get

insurance from or through you, I will pay \$ _____ for _____ of coverage

(1) To secure the payment of the note total (defined on the reverse side) I acknowledge and agree that you have the right to sell off this note against any of you have (now or hereafter) to pay money to me.

You may collect the proceeds (or rebates of unearned premiums) on any insurance covering me (where you are named as loss payee) and on any policy insuring the securing this note. You will apply this toward what I owe you.

☒ Security Agreement: If checked, I give you a security interest in the property described below. The rights I am giving you in this property, and the obligations in this agreement are defined on the reverse side of this form.

MORTGAGE COVERING PART OF TRACTS 27 & 28, HOLMAN ACRES MORE PARTICULARLY DESCRIBED IN MORTGAGE

EVEN DATE.

(3) ☐ If checked, this note is not further secured by any contemporaneous agreement (other than (1) and (2) of this section)

(4) ☒ If checked, this note is secured by a separate

REAL ESTATE dated MARCH 31, 1986

Signature SETH WARD

Signature

Signature

Unless specifically agreed in writing to the contrary, this security agreement can be secured not be assumed by any person who buys the collateral described in me, and I understand and agree that if I attempt to transfer any interest in the (including, but not limited to, possession) I will be in default on all secured obligations

son who signs within this enclosure does so to give you a security interest in property described above, but assumes no personal obligation to pay this note

Date

is for Lender - where necessary for filing this security agreement

INTEREST NOTE DISCLOSURE AND SECURITY AGREEMENT

FOR RENT SYSTEMS, INC. ST. CLOUD, MN 56301 FORM NO. 55-1-1/13/85

This collateral will be used for BUSINESS purposes

☐ If checked this is a purchase money loan. You may include the name of the seller on the check or draft for this loan

I agree to the terms of the note and security agreement above (including those on the other side of this form) and acknowledge receipt of at least one copy on today's date

COSIGNER: SEE NOTICE ON REVERSE SIDE BEFORE SIGNING

Signature SETH WARD

Signature

Signature

MORTGAGE

WITH POWER OF SALE (Realty)

KNOW ALL MEN BY THESE PRESENTS:

THAT..... SETH WARDand
 husband and wife, GRANTORS,
 for and in consideration of the sum of One Dollar (\$1.00), to GRANTORS in hand paid, the receipt of which is hereby
 acknowledged, and in consideration of the premises hereinafter set forth, do hereby grant, bargain, sell and convey unto
 MADISON GUARANTY SAVINGS AND LOAN ASSOCIATION GRANTEE,
 (whether one or more) and unto GRANTEE'S heirs [successors] and assigns forever, the following property, situated
 in..... PULASKICounty, Arkansas:

SEE LEGAL DESCRIPTION ATTACHED HERETO AND MADE A PART HEREOF

TO HAVE AND TO HOLD the same unto the said GRANTEE, and unto GRANTEE'S heirs [successors] and
 assigns forever, with all appurtenances thereto belonging; and all rents, income, and profits therefrom after any
 default herein.

We [I] hereby covenant with the said GRANTEE, GRANTEE'S heirs [successors] and assigns, that said
 lands are free and clear of all encumbrances and liens, and will forever warrant and defend the title to said property
 against all lawful claims. And, we, GRANTORS,..... SETH WARD
 for the consideration
 aforesaid do hereby release unto the said GRANTEE and unto GRANTEE'S heirs [successors] and assigns forever,
 all our rights and possibility of dower, curtesy and homestead in and to the said lands.

The sale is on the condition, that whereas GRANTORS are justly indebted unto said GRANTEE in the sum of
 FOUR HUNDRED THOUSAND AND NO/100-----Dollars (\$400,000.00.),
 evidenced by THE promissory note... dated..... MARCH 31 1986, in the sum of
 \$ 400,000.00 bearing interest from date until due at the rate of 12.000% per annum and thereafter until paid
 at the rate of 12.000% per annum, payable as follows:

AS STATED IN NOTE OF EVEN DATE

This mortgage shall also be security for any other indebtedness of whatsoever kind that the GRANTEE or
 the holders or owners of this mortgage may hold against GRANTORS by reason of future advances made hereunder,
 by purchase or otherwise, to the time of the satisfaction of this mortgage.

In the event of default of payment of any part of said sum, with interest, or upon failure of GRANTORS
 to perform the agreements contained herein, the GRANTEE, GRANTEE'S heirs [successors] and assigns, shall
 have the right to declare the entire debt to be due and payable; notice to GRANTORS is waived, and said option
 may be exercised at any time after default; and

GRANTORS hereby covenant that they will keep all improvements insured against fire, with all other full
 coverage insurance, loss payable clause to holder and owner of this mortgage; that said improvements will be
 kept in a good state of repair, and waste will neither be permitted nor committed; that all taxes of whatever
 nature, as well as assessments for improvements will be paid when due, and if not paid GRANTEE may pay same
 and shall have a prior lien upon said property for repayment, with interest at the rate of 10% per annum; now,

DL 000000023

MEMORANDUM

TO: John Latham
FROM: Don Denton
DATE: July 14, 1986
RE: Ward, Seth

It is my understanding that Seth had an arrangement with Madison Financial Corporation that he would receive a \$300,000 commission for his participation in the acquisition of part of the real estate acquired in September of 1985 from Industrial Development Corporation. It is also my understanding that Madison Financial Corporation was not in a position, from a liquidity standpoint, to make payment to Seth in early April 1986.

Seth had originally borrowed \$1,150,000 from Madison Guaranty for his part of the purchase. Subsequent sales reduced the balance of his loan ~~from~~ \$70,000 by early April of 1986. A new note was drawn in the amount of \$70,000, payable to Madison, which now matures November 30, 1986.

On March 31, 1986, Seth executed a note in the amount of \$400,000 secured by the northeast intersection of the Pine Bluff Freeway and 145th Street. We originally advanced the full \$400,000 with Seth subsequently repaying on April 23 \$100,000 of this loan. The current balance is \$300,600 which has been extended to November 30, 1986. In the interim, pending preparation of an option agreement whereby Madison Financial would purchase the northeast corner from Seth, a note was drawn in the amount of \$300,000 dated April 7, 1986, payable to Seth Ward, executed by Madison Financial Corporation. This note was later destroyed and replaced by a similar note. An option agreement was drawn, dated May 1, 1986, obligating Seth to sell the property to Madison if it so opted. This option was in the amount of \$400,000 and I am assuming this would cover the \$300,000 note, the \$70,000 note, and interest on those two obligations.

It is my understanding that title to some 50 acres on the northeast boundary of 145th Street remains in Seth's name and is not included in this option arrangement. This is the property that Feacock is currently developing for an FHA project.

Seth has a third note with Madison Guaranty S&L which to my knowledge has no connection with the 145th Street project. This note is #4215 in the amount of \$93,000, dated June 10, 1986. This loan matures January 30, 1987 and is unsecured.

HDD/ly

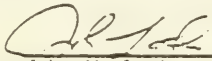
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RESOLUTION

I certify that at a special meeting of the Board of Directors of Madison Financial Corporation, held on April 4, 1986, the following resolutions were adopted:

"BE IT RESOLVED THAT Madison Financial Corporation is authorized to borrow \$300,000.00 from Seth Ward. The loan is unsecured. The term of the loan is two (2) months with interest at 12%.

It is further resolved that Madison Financial Corporation is authorized to borrow \$70,943.47 from Seth Ward. The loan is unsecured and is for a term of two (2) months with interest payable at 12%."



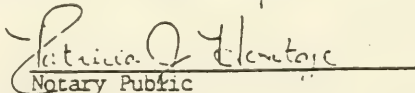
John M. Latham
Secretary

STATE OF ARKANSAS)
) ss
COUNTY OF PULASKI)

ACKNOWLEDGEMENT

On this 7th day of April, 1986, before me Patricia Q. Hentage, a Notary Public, commissioned and duly qualified, appeared in person, the within named John M. Latham to me personally well known, who stated that he was secretary of Madison Financial Corporation, and was fully authorized in his respective capacity to execute the foregoing instrument for and in the name and behalf of said corporation, and further stated and acknowledged that he had so signed, executed and delivered said foregoing instrument for the consideration, uses and purposes therein mentioned and set forth.

IN TESTIMONY WHEREOF I have hereunto set my hand and official seal this 7th day of April 1986.



Notary Public

My Commission Expires 10-16-92.

PERSONAL FINANCIAL CORPORATION 4801 E. HIGHWAY 10 LITTLE ROCK, ARKANSAS 72207	SET-1782 4801 E. HIGHWAY 10 LITTLE ROCK, ARKANSAS 72207	Loan Number _____ Date <u>June 6, 1976</u> Maturity Date <u>June 6, 1976</u> Loan Amount \$ <u>70,045.47</u> Renewal Of _____
--	---	---

BORROWER'S NAME AND ADDRESS
 Includes each borrower above, jointly and severally.

LENDER'S NAME AND ADDRESS
 "You" means the lender, its successors and assigns.

I promise to pay to you, or your order, at your address listed above the
 PRINCIPAL sum of SEVENTY THOUSAND FIVE HUNDRED FORTY-FIVE AND 47/100 Dollars \$ 70,045.47

☒ Single Advance: I have received all of this principal sum. No other advances are contemplated under this note.
☐ Multiple Advance: The principal sum amount of principal I can borrow under this note. As of today I have received and future principal advances are contemplated.

Conditions: The conditions are _____

☐ Open End Credit: You _____
☒ Closed End Credit: You _____

PURPOSE: The purpose of this loan is _____

INTEREST: I agree to pay interest on the principal balance(s) owing from time to time as stated in this section

☒ Fixed Rate: I agree to pay interest at the fixed, simple rate of _____ % per year.
☐ Variable Rate: I agree to pay interest at the initial simple rate of _____ % per year. This rate may change as stated below
☐ Index Rate: The future rate will be _____ the following index rate: _____

☐ No Index: The future rate will not be subject to any internal or external index. It will be entirely in your control.
☐ Frequency and Timing: The rate on this note may increase as often as _____
 An increase in the index will take effect _____

☐ Limitations: The rate on this note will not at any time (and no matter what happens to any index rate used) go above or below these limits:
☐ Maximum Rate: The rate will not go above _____
☐ Minimum Rate: The rate will not go below _____

Post Maturity Rate: I agree to pay interest on the principal owing after maturity, and until paid in full, as stated below
☐ on the same fixed or variable rate basis in effect before maturity (as indicated above);
☒ at a rate equal to 12.00%

☐ **ADDITIONAL CHARGES:** In addition to interest, I ☐ have paid ☐ agree to pay the following additional charges _____

PAYMENTS: I agree to pay this note as follows:

☒ Interest: I agree to pay accrued interest IN THE AMOUNT OF \$1,782.47 ON JUNE 6, 1976
☐ Principal: I agree to pay the principal IN THE AMOUNT OF \$70,045.47 ON JUNE 6, 1976
☐ Installments: I agree to pay this note in _____ payments. The first payment will be in the amount of \$ _____ and will be due _____, 19 _____. A payment of \$ _____ will be due on the _____ day each _____ thereafter. The final payment of the entire unpaid balance principal and interest will be due _____, 19 _____.
☐ Effect of Variable Rate: An increase in the interest rate will have the following effect on the payments:
☐ The amount of each scheduled payment will be increased.
☐ The amount of the final payment will be increased.

ADDITIONAL TERMS:

☐ **SECURITY:** This note is secured by _____

☐ If checked, no agreement was signed today securing this note
 (This section is for your internal use. It may not include every agreement or item of collateral securing this note. You will not lose any security by omitting it from this section.)

SIGNATURES: I AGREE TO THE TERMS OF THIS NOTE (INCLUDING THOSE ON THE OTHER SIDE). I have received a copy on today's date.

DD 000000032

LOAN OFFICE CORPORATION 1000-1593 LITTLE ROCK, ARKANSAS 72203	SETH HARD 48 RIVER RIDGE ROAD LITTLE ROCK, ARKANSAS 72207	Loan Number _____ Date <u>APRIL 7,</u> 19 <u>86</u> Maturity Date <u>JUNE 6,</u> 19 <u>86</u> Loan Amount \$ <u>300,000.00</u> Renewal Of _____
BORROWER'S NAME AND ADDRESS (Excludes each borrower above, jointly and severally.)		LENDER'S NAME AND ADDRESS "You" means the lender, its successors and assigns

I promise to pay to you, or your order, at your address listed above the PRINCIPAL sum of THREE HUNDRED THOUSAND AND NO/100 Dollars \$ 300,000.00

☒ Single Advance: I have received all of this principal sum. No additional advances are contemplated under this note.

☐ Multiple Advance: The principal sum shown above is the maximum amount of principal I can borrow under this note. As of today I have received the amount of \$ _____ and future principal advances are contemplated.

Conditions: The conditions for future advances are _____

☐ Open End Credit: You and I agree that I may borrow up to the maximum amount of principal more than one time. This feature is subject to all other conditions and expires no later than _____ 19 ____.

☒ Closed End Credit: You and I agree that I may borrow up to the maximum only one time (and subject to all other conditions).

PURPOSE: The purpose of this loan is BUSINESS

INTEREST: I agree to pay interest on the principal balance(s) owing from time to time as stated in this section.

☒ Fixed Rate: I agree to pay interest at the fixed, simple rate of 12.00% % per year.

☐ Variable Rate: I agree to pay interest at the initial simple rate of _____ % per year. This rate may change as stated below.

☐ Index Rate: The future rate will be _____ the following index rate: _____

☐ No Index: The future rate will not be subject to any internal or external index. It will be entirely in your control.

☐ Frequency and Timing: The rate on this note may increase as often as _____

An increase in the index will take effect: _____

☐ Limitations: The rate on this note will not at any time (and no matter what happens to any index rate used) go above or below these limits:

☐ Maximum Rate: The rate will not go above _____

☐ Minimum Rate: The rate will not go below _____

Post-Maturity Rate: I agree to pay interest on the principal owing after maturity, and until paid in full, as stated below:

☐ on the same fixed or variable rate basis in effect before maturity (as indicated above).

☒ at a rate equal to 12.00%

☐ ADDITIONAL CHARGES: In addition to interest, I ☐ have paid ☐ agree to pay the following additional charges: _____

PAYMENTS: I agree to pay this note as follows:

☒ Interest: I agree to pay accrued interest IN THE AMOUNT OF \$5,917.91 ON JUNE 6, 1986

☒ Principal: I agree to pay the principal IN THE AMOUNT OF \$300,000.00 ON JUNE 6, 1986

☐ Installments: I agree to pay this note in _____ payments. The first payment will be in the amount of \$ _____ and will be due _____, 19 _____. A payment of \$ _____ will be due on the _____ each _____ thereafter. The final payment of the entire unpaid balance principal and interest will be due _____, 19 ____.

☐ Effect of Variable Rate: An increase in the interest rate will have the following effect on the payments:

☐ The amount of each scheduled payment will be increased.

☐ The amount of the final payment will be increased.

ADDITIONAL TERMS:

☐ SECURITY: This note is secured by _____

☐ If checked, no agreement was signed today securing this note.

(This section is for your internal use. It may not include every agreement or item of collateral securing this note. You will not lose any security by omitting it from this section.)

SIGNATURES: I AGREE TO THE TERMS OF THIS NOTE (INCLUDE THOSE ON THE OTHER SIDE). I have received a copy on today's date.

NAISON FINANCIAL CORPORATION

MARISCAL FINANCIAL CORPORATION P.O. BOX 1002 LITTLE ROCK, ARKANSAS 72203	SETH WARD 48 RIVER RIDGE DRIVE LITTLE ROCK, ARKANSAS 72217	Loan Number _____ Date <u>APRIL 7,</u> 19 <u>81</u> Maturity Date <u>20</u> _____, 19 <u>82</u> Loan Amount \$ <u>25,000.00</u> Renewal Of _____
BORROWER'S NAME AND ADDRESS * includes each borrower above, jointly and severally		
LENDER'S NAME AND ADDRESS *You* means the lender, its successors and assigns		

I promise to pay to you, or your order, at your address listed above the

PRINCIPAL sum of THREE HUNDRED THOUSAND TWO HUNDRED Dollars \$ 250,000.00

- ☒ **Single Advance:** I have received all of this principal sum. No additional advances are contemplated under this note.
- ☐ **Multiple Advance:** The principal sum shown above is the maximum amount of principal I can borrow under this note. As of today I have received the amount of \$ _____ and future principal advances are contemplated.

Conditions: The condition

- ☐ Open End Credit: You
condit
- ☒ Closed End Credit: Yc

maximum amount of principal more than one time. This feature is subject to all c

maximum only one time (and subject to all other conditions)

PURPOSE: The purpose of this loan is:

INTEREST: I agree to pay interest on

- ☐ **Fixed Rate:** I agree to pay interest at the rate of 3.00 % per year. This rate may change as stated below.
- ☐ **Variable Rate:** I agree to pay interest at the rate of _____ % per year. This rate may change as stated below.
- ☐ **Index Rate:** The future rate will be _____ the following index rate _____.

- ☐ **No Index:** The future rate will not be subject to any internal or external index. It will be entirely in your control.
- ☐ **Frequency and Timing:** The rate on this note may increase as often as _____.
- An increase in the index will take effect _____.
- ☐ **Limitations:** The rate on this note will not at any time (and no matter what happens to any index rate used) go above or below these limits:
- ☐ **Maximum Rate:** The rate will not go above _____.
- ☐ **Minimum Rate:** The rate will not go below _____.

Post Maturity Rate: I agree to pay interest on the principal owing after maturity, and until paid in full, as stated below

- ☒ at a rate equal to 4.25%

- ☐ **ADDITIONAL CHARGES:** In addition to interest, I ☐ have paid ☐ agree to pay the following additional charges _____

PAYMENTS: I agree to pay this note as follows.

- ☒ Interest: I agree to pay accrued interest IN THE AMOUNT OF \$5,917.01 ON JUNE 5, 1966

- ☐ Installments: I agree to pay this note in _____ payments. The first payment will be in the amount of \$ _____ and will be due _____, 19____. A payment of \$ _____ will be due on the _____ day of _____, 19____ each _____ thereafter. The final payment of the entire unpaid balance of principal and interest will be due _____, 19____.

- ☐ **Effect of Variable Rate:** An increase in the interest rate will have the following effect on the payments

- ☐ The amount of each scheduled payment will be increased
- ☐ The amount of the final payment will be increased
- ☐

ADDITIONAL TERMS:

- ☐
- SECURITY:**
- This note is secured by _____

- ☐
- If checked, no agreement was signed today securing this note

(This section is for your internal use. It may not include every agreement or item of collateral securing this note. You will not lose any security by omitting it from this section.)

SIGNATURES: I AGREE TO THE TERMS OF THIS NOTE (INCLUDING THOSE ON THE OTHER SIDE). I have received a copy on today's date.

HAIR: BLACK - COLORED

Jan. 10 - 1907

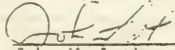
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RESOLUTION

I certify that at a special meeting of the Board of Directors of Madison Financial Corporation, held on May 1, 1986, the following resolution was adopted:

"BE IT RESOLVED THAT Seth Ward has granted to Madison Financial Corporation an exclusive option to purchase the property described below at a price of \$400,000. Madison Financial Corporation will execute this option agreement.

All buildings and improvements thereon, situated in the City of Little Rock, Pulaski County, Arkansas, to-wit: A tract of land located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 24, T-1-S, R-12-W, Pulaski County, Arkansas, more particularly described as: Starting at an iron pin marking the intersection of the North right-of-way line of East 145th Street and the West right-of-way line of Dineen Drive; thence S89 44' 40" E along said North right-of-way line, 22.75 feet; thence Southeasterly and continuing along said North right-of-way line, being the arc of a 2,915 ft. radius curve to the right having an arc distance of 559.07 feet; thence S78 45' 20" E and continuing along said North right-of-way line, 2724.44 feet to the point of beginning of the tract of land described herein; thence N 11 14' 40" E and perpendicular to said North right-of-way line, 522.72 feet to a point; thence S78 45' 20" E and parallel with said North right-of-way line, 555.56 feet to a point; thence S 11 14' 40" W and perpendicular to said North right-of-way line 522.72 feet to a point on said North right-of-way line; thence N78 45' 20" W along said North right-of-way, 555.56 feet to the point of beginning, containing 290,402.32 sq. ft. or 6.6667 acres, more or less."

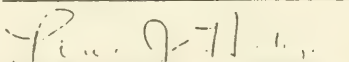

John M. Latham
Secretary

STATE OF ARKANSAS)
) ss
COUNTY OF PULASKI)

ACKNOWLEDGEMENT

On this 5th day of May, 1986, before me Patricia J. Henlage, a Notary Public, commissioned and duly qualified, appeared in person, the within named John M. Latham to me personally well known, who stated that he was secretary of Madison Financial Corporation, and was fully authorized in his respective capacity to execute the foregoing instrument for and in the name and behalf of said corporation, and further stated and acknowledged that he had so signed, executed and delivered said foregoing instrument for the consideration, uses and purposes therein mentioned and set forth.

IN TESTIMONY WHEREOF I have hereunto set my hand and official seal this 5th day of May, 1986.


Notary Public

LD 000000035

My commission expires 10-16-92

OPTION TO PURCHASE REAL ESTATE

This option granted this 1st day of May, 1986, by SETH WARD and YVONNE ANNA WARD, his wife (collectively "Grantor"), to MADISON FINANCIAL CORPORATION ("Optionee"),

W-I-T-N-E-S-S-E-T-H:

1. GRANT OF OPTION. In consideration of Optionee's payment to the Grantor of One Thousand Dollars (\$1,000.00), and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Grantor hereby grants to Optionee an exclusive and irrevocable Option to purchase the following described property together with all buildings and improvements thereon, situated in the City of Little Rock, Pulaski County, Arkansas, to-wit:

Part of Tracts 27 & 28, Holman Acres, Pulaski County, Arkansas.

2. PURCHASE PRICE. The purchase price for the property hereinabove described, together with all improvements thereon, shall be Four Hundred Thousand Dollars (\$400,000.00).

3. EXPIRATION DATE. This Option shall expire at 6:00 o'clock, P.M., Central Time, on August 1, 1986.

4. FAILURE TO EXERCISE OPTION. If Optionee does not exercise this Option as herein provided, all sums paid by him hereunder shall be retained by the Grantor free of all claims of Optionee, and neither party shall have any further rights of claims against the other.

5. EXERCISE OF OPTION. This option shall be exercised by Optionee's delivering to the Grantor written notice of such exercise on or before the expiration date, or any extension thereof, or by Optionee's mailing such written notice of exercise by certified mail to Grantor at least two (2) days before the expiration date, or any extension thereof; and such notice, if so mailed, shall be deemed valid and effective whether or not it actually is delivered to Grantor prior to the expiration date, or any extension thereof.

6. CLOSING REQUIREMENTS. In the event of Optionee's exercise of this Option:

a. Closing will occur within 30 days after the exercise of this Option, which date may be extended by mutual agreement;

b. The Grantor shall deliver at closing to Optionee, or his nominee, a general warranty deed conveying good and marketable title in fee simple to the aforesaid premises, free and clear of all liens, encumbrances and tenancies, except those for streets and utilities and tenancies which may be disclosed by Grantor to Optionee prior to the granting of this Option;

c. Taxes and assessments, if any, due on or before the closing date shall be paid by Grantor. Taxes and assessments, if any, for 1986 shall be prorated as of the closing date;

d. Grantor, at Grantor's sole expense, shall furnish Optionee, within 30 days after exercise of the Option, a complete abstract certified to a current date, or at Grantor's option, a commitment for an owner's title insurance policy convertible at closing to an owner's policy issued on ALTA Form B, 1970, reflecting merchantable title satisfactory to Optionee's attorney. In the event an abstract is furnished and an examination of title to said

property shall disclose that the same is not good and marketable, and if the cause of such unmarketability shall not be removed by Grantor prior to the date fixed for closing, then Grantor may exercise his option to furnish Optionee a policy of title insurance satisfactory to Optionee. If marketable title cannot be conveyed at closing, any monies paid by Optionee on account of the purchase price of said property, including any sums paid as consideration for the granting of this Option, shall be refunded to Optionee;

e. The risk of loss, damage, condemnation, or destruction of the premises or improvements thereon by fire, or otherwise, until closing shall be on Grantor;

f. Revenue stamps to be placed on the Deed shall be at the expense of Grantor.

7. PAYMENT OF PURCHASE PRICE. At closing, Optionee will pay Grantor in cash an amount equal to the purchase price set out in accordance with Paragraph 2 hereof.

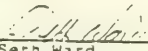
8. NOTICES. Any notices required hereunder shall be effective if given to the parties hereto at the following addresses, or such other address as either party may subsequently designate in writing:

OPTIONEE: Madison Financial Corporation
1308 South Main
Little Rock, Arkansas 72201

GRANTOR: Seth Ward
16th & Main
Little Rock, Arkansas 72201

9. ASSIGNMENT. This Option, before or after its exercise, may be assigned by Optionee without the prior written consent of Grantor.

GRANTOR:


Seth Ward

OPTIONEE:

MADISON FINANCIAL CORPORATION

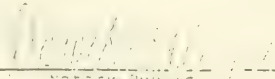
BY: 

ACKNOWLEDGMENT

STATE OF ARKANSAS)
) ss.
 COUNTY OF PULASKI)

On this day before me, the undersigned officer, personally appeared SETH WARD and YVONNE ANNA WARD, his wife, known to me to be the persons whose names are subscribed to the foregoing Option to Purchase Real Estate, and acknowledged that they had executed the same for the purposes therein contained.

WITNESS my hand and official seal this 10 day of
May, 1966.



 Notary Public
 Dorothy E. Olinger

My Commission Expires:


August 26, 1966

ACKNOWLEDGMENT

STATE OF ARKANSAS)
) ss.
 COUNTY OF PULASKI)

On this day before me, the undersigned officer, personally appeared Sam Luther Gordon, Notary Public, known to me to be the person whose name is subscribed to the foregoing Option to Purchase Real Estate, and acknowledged that he had executed the same for the purposes therein contained.

WITNESS my hand and official seal this 10 day of
May, 1966.



 Notary Public
 Dorothy E. Olinger

My Commission Expires:

August 26, 1966

OPTION TO PURCHASE REAL ESTATE

This Option granted this 1st day of May, 1986, by SETH WARD and YVONNE ANNA WARD, his wife (collectively "Grantor"), to MADISON FINANCIAL CORPORATION ("Optionee"),

W-I-T-N-E-S-S-E-T-H:

1. GRANT OF OPTION. In consideration of Optionee's payment to the Grantor of One Thousand Dollars (\$1,000.00), and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Grantor hereby grants to Optionee an exclusive and irrevocable Option to Purchase the following described property together with all buildings and improvements thereon, situated in the City of Little Rock, Pulaski County, Arkansas, to-wit:

A tract of land located in the NE 1/4 SW 1/4 Section 24, T-1-S, R-12-W, Pulaski County, Arkansas, more particularly described as: Starting at an iron pin marking the intersection of the North right-of-way line of East 145th Street and the West right-of-way line of Dineen Drive; thence S89° 44' 40" E along said North right-of-way line, 22.75 ft.; thence Southeasterly and continuing along said North right-of-way line, being the arc of a 2,915 ft. radius curve to the right having an arc distance of 559.07 ft.; thence S78° 45' 20"E and continuing along said North right-of-way line, 2724.44 ft. to the point of beginning of the tract of land described herein; thence N 11° 14' 40" E and perpendicular to said North right-of-way line, 522.72 ft. to a point; thence S78° 45' 20"E and parallel

SW1-070

with said North right-of-way line, 555.56 ft. to a point; thence S11° 14' 40" W and perpendicular to said North right-of-way line 522.72 ft. to a point on said North right-of-way line; thence N78° 45' 20" W along said North right-of-way, 555.56 ft. to the point of beginning, containing 290,402.32 sq. ft. or 6.6667 acres more or less.

2. PURCHASE PRICE. The purchase price for the property hereinabove described, together with all improvements thereon, shall be Four Hundred Thousand Dollars (\$400,000.00).

3. EXPIRATION DATE. This Option shall expire at 6:00 o'clock, P.M., Central Time, on August 1, 1986.

4. FAILURE TO EXERCISE OPTION. If Optionee does not exercise this Option as herein provided, all sums paid by him hereunder shall be retained by the Grantor free of all claims of Optionee, and neither party shall have any further rights or claims against the other.

5. EXERCISE OF OPTION. This Option shall be exercised by Optionee's delivering to the Grantor written notice of such exercise on or before the expiration date, or any extension thereof, or by Optionee's mailing such written notice of exercise by certified mail to Grantor at least two days before the expiration date, or any extension thereof; and such notice, if so mailed, shall be deemed valid and effective whether or not it actually is delivered to Grantor prior to the expiration date, or any extension thereof.

6. CLOSING REQUIREMENTS. In the event of Optionee's exercise of this Option:

a. Closing will occur within 30 days after the exercise of this Option, which date may be extended by mutual agreement;

b. The Grantor shall deliver at closing to Optionee, or his nominee, a general warranty deed conveying good and marketable title in fee simple to the aforesaid premises, free and clear of all liens, encumbrances and tenancies, except those for streets and utilities and tenancies which may be disclosed by Grantor to Optionee prior to the granting of this Option;

c. Taxes and assessments, if any, due on or before the closing date shall be paid by Grantor. Taxes and assessments, if any, for 1986 shall be prorated as of the closing date;

d. Grantor, at Grantor's sole expense, shall furnish Optionee, within 30 days after exercise of the Option, a complete abstract certified to a current date, or at Grantor's option, a commitment for an owner's title insurance policy convertible at closing to an owner's policy issued on ALTA Form B, 1970, reflecting merchantable title satisfactory to Optionee's attorney. In the event an abstract is furnished and an examination of title to said

property shall disclose that the same is not good and marketable, and if the cause of such unmarketability shall not be removed by Grantor prior to the date fixed for closing, then Grantor may exercise his option to furnish Optionee a policy of title insurance satisfactory to Optionee. If marketable title cannot be conveyed at closing, any monies paid by Optionee on account of the purchase price of said property, including any sums paid as consideration for the granting of this Option, shall be refunded to Optionee;

e. The risk of loss, damage, condemnation, or destruction of the premises or improvements thereon by fire, or otherwise, until closing shall be on Grantor;

f. Revenue stamps to be placed on the Deed shall be at the expense of Grantor.

7. PAYMENT OF PURCHASE PRICE. At closing, Optionee will pay Grantor in cash an amount equal to the purchase price set out in accordance with Paragraph 2 hereof.

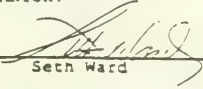
8. NOTICES. Any notices required hereunder shall be effective if given to the parties hereto at the following addresses, or such other address as either party may subsequently designate in writing:

OPTIONEE: Madison Financial Corporation
1308 South Main
Little Rock, Arkansas 72201

GRANTOR: Seth Ward
16th & Main
Little Rock, Arkansas 72201

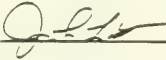
9. ASSIGNMENT. This Option, before or after its exercise, may be assigned by Optionee without the prior written consent of Grantor.

GRANTOR:


Seth Ward

OPTIONEE:

MADISON FINANCIAL CORPORATION

BY: 

SW1-074

① Certificate of Supervising Architect

~~James B. Smith~~

② Construction contract

③ Architect's Contract

3,900,000 - cost. + win-perm

Settlement agreement.

Delay caused in Bobcock because of Courtland.

partnership problems

contractor problems because
of brought to Sam's attention.

OD problems

Courtland height problem caused
loss of creditability with sub-con-
tractors & RE industry.

10-18-84 Violation stated -
"Borrower's Deposit" -

Savers assumed responsibility
for supervision of contracts.

DD 000000243

Brokerage fees paid - in full
- out number.

MEMO

November 20, 1985

TO: Seth Ward
FROM: Jim McDougal

I apologize for being slow on getting you an update since you returned from France.

The following properties have been sold from our portfolio:

- 1) The Levi-Strauss Building
- 2) The Southwest Quadrant (Tucker Sale)
- 3) The 2 acres on Scott Hamilton Drive
- 4) 9 acres off Murray Drive

Additionally, Bill Lyon will be taking 2 acres of our best property, probably off the Southeast Quadrant, to immediately begin construction of a convenience store and gas station. This location will be determined at our planning meeting tomorrow.

Subject to approval by the ABC, Bill will place his brewery in the shell building, along with a tasting room. I have spoken with the Governor on this matter, and expect it will be approved. We must be very careful to not mention that there will be a "tavern" in the location, as word is already out to that effect and it is causing us problems in the area. Bill's operation must be sold both to the state regulators and to the public as a tourist attraction.

The sales of homes and lots are now at 5 or 6 in the mobile home subdivision, which is very good considering that we are doing almost no advertising and it has rained on us about 70% of the time during the past 15 days.

It has become obvious from talking with our first customers that we are giving them too much land. I have, therefore, instructed Joe White to reduce the size of those tracts which do not front on 145th Street to a dimension of 100' X 200'.

Henry advises me that you had expressed some apprehension that we might be entering into a joint

venture with Hazen Homes. We are not! We are not making any loans to that entity. We are buying f.o.b. certain modular panels to permit the rapid assembly of modular-type housing at Maple Creek. I must advise you, in the very strictest confidence, that it is our intention to ultimately produce these modules ourselves in our own factory. Pat Harris has visited with the executive secretary of the Manufactured Housing Association and he is sending a man to visit with us this week, who is experienced in the startup aspects of this type of operation. I have studied this concept for 15 years and always believed it to be the most practical way to build houses. It is my hope that since you are the only industrialist among us, that you will be in on all these meetings and make work for me what is a long-held and determined ambition.

Additionally, we will wish to stick-build a higher quality home. We have signed up with the Scholz Homes people to have access to their plans and packages. These homes should be built for our own account under the direction of an experienced, quality home builder. You suggested you know such a person. I would recommend that you get with me and Vernon within the shortest time possible.

JM/ss

MEMORANDUM

TO: Hillary Rodham Clinton
FROM: Richard T. Donovan
DATE: January 3, 1986
RE: Madison Guaranty Savings & Loan--"Wet"/"Dry" Issue

I. ISSUE PRESENTED

Given the location of the proposed site for the new brewery is the area "wet" or "dry?"

II. CONCLUSION

The proposed location for the brewery is within the old Union Township which was voted "dry" in 1953. Even though Union Township is no longer in existence and was incorporated into the larger Big Rock Township, the geographic area that was the old Union Township would probably retain its "dry" status. Moreover, the results of the election, as certified by the Election Commissioners and compiled in an order by the Pulaski County Court Judge, is on record with the County Clerk and in compliance with Arkansas' local option law, Ark. Stat. Ann. § 48-809.

0000090

III. INVESTIGATION

The first part of the investigation involved the search of the County Court Clerk's records. The County Court Clerk maintains a "local option" file in which the results of various local option elections, as certified to by Election Commissioners, and compiled by an order of the County Court Judge are kept as per Ark. Stat. Ann. § 48-809. Investigation revealed that the County Court Clerk does have an order from the County Court Judge regarding the old Union Township local option election of 1953. The order states that upon the certificate of the Pulaski County Election Board Commissioners the "dry" vote won with 193 votes as opposed to 99 "wet" votes. It is interesting, but probably unimportant, that the order was executed September 13, 1953, but filed in 1958.

The other part of the investigation involved interviews with officers of the Alcoholic Beverage Control Board. In a meeting with Don Bennett, Counsel for the Alcoholic Beverage Control Board, he indicated to me that the location of the proposed brewery was within the old Union Township and that the Alcoholic Beverage Control Board considered this portion of Pulaski County to be "dry." I was furnished with a map of the old Union Township, a copy of which is attached hereto. Mr. Bennett admitted that Union Township no longer exists as a political entity and was incorporated into the larger Big Rock Township. However, he pointed to two Arkansas Supreme Court decisions to

support his position that the area was "dry"--Denniston v. Riddle, 210 Ark. 1039, 199 S.W.2d 308 (1947) and Carter v. Reamy, 232 Ark. 211, 335 S.W.2d 298 (1960). These cases held that if a given geographic area pursuant to a local option election votes "dry" that entire region remains "dry" and any local option elections of smaller parcels within that larger geographic entity are void and will not affect the larger geographic entity's "dry" status. This proposition could be used to refute an argument that precincts within the old Union Township have had subsequent local option elections and those precincts voted "wet," although I am unaware of any such elections. However, this does not address the issue of what is the effect of a local option election result for a political entity or township that no longer exists.

IV. WHAT IS THE EFFECT OF A LOCAL OPTION ELECTION RESULT FOR A TOWNSHIP WHICH NO LONGER EXISTS?

There are no Arkansas cases which directly speak to this issue, but my research reveals that the majority of jurisdictions which have faced this issue hold that the geographic/political entity which voted pursuant to a local option election does not lose its "wet" or "dry" status when that geographic/political entity is dissolved and/or incorporated into another entity.

Only one case holds the opposite. In Village of American Falls v. West, 26 Idaho 301, 142 P. 42 (1914), the Idaho Supreme

Court held that where a new county is created from a territory which was formerly comprised of "dry" counties, and also a territory that was formerly part of a "wet" county, and there is no legislative provision as to whether the new county shall be a "wet" or "dry" county, until a local option election is held, the entire newly created county becomes "wet."

As stated above, the majority of the cases hold otherwise. The rationale of those cases is that the change in voting districts, precincts or townships should not affect the valid choice of the people in a previous local option election. In Wilkins v. State, 75 Fla. 483, 78 So. 533 (1918), the Florida Supreme Court held that where an election has been held to determine whether the sale of intoxicating liquors will be prohibited in any county, the status established by that vote of the people attaches to that geographic territory, and, if subsequently, a new precinct is created from part of that "dry" territory and part of a "wet" territory, the territory which was formerly "dry" remains "dry" and the territory which was formerly "wet" remains "wet" until changed by a new local option election. In accordance with this decision, see Palmer v. Liquor Control Commission, 77 Ill. App.3d 725, 396 N.E.2d 325 (1979); Talley v. Benson, 96 S.W.2d 94 (Tx. 1936); Blanchard v. Gauthier, 184 So.2d 531 (La. 1966); and Canton v. Imperial Bowling Lanes, Inc., 16 Ohio St.2d 47, 242 N.E.2d 566 (1968).

A more favorable case is a Mississippi case, Jackson Municipal Airport Authority v. State, 196 So.2d 884 (Miss. 1967). In that case, the airport was located in a "dry" county, but was incorporated into a "wet" municipality pursuant to a statute authorizing a municipality to annex wholly-owned airport facilities and apply all laws and ordinances to the annexed airport territory. The Mississippi Supreme Court held that the annexed airport would become "wet." It should be noted the distinguishing feature in this case is the presence of a statute expressly calling for the application of all of the municipality's laws and ordinances to the annexed territory.

V. THE UNION TOWNSHIP LOCAL OPTION ELECTION RESULT IS ON RECORD WITH THE PULASKI COUNTY CLERK CONSISTENT WITH ARKANSAS' LOCAL OPTION ACT

Ark. Stat. Ann. § 48-809 provides:

If it shall be found that a majority of the legal votes cast at any election herein provided for were given for or against the sale, barter or loan of spirituous, vinous or malt liquors in the county, city, town, district or precinct, it shall be the duty of the canvassing board to certify that fact, which certificate shall be delivered to the clerk of the county court, and by him safely kept until the next regular term of the county court, at which term the judge thereof shall have the same spread on the record of his court and said entry of the certificate in the record or a certified copy thereof, shall be prima facie evidence in any or all proceedings under this Act.

As mentioned above, this statute has been complied with in that the County Court Judge entered on record the Certificate of the Pulaski County Board of Election Commissioners stating the "dry" vote was in the majority in the Union Township local option election. Thus, one cannot argue that because of the absence of the election results in the County Clerk's records, the results of the elections are void and unenforceable.

VI. CONCLUSION

To conclude, counsel for the Alcoholic Beverage Control Board considers the proposed location of the brewery to be within the boundaries of the old Union Township which voted "dry" in a 1955 local option election and, therefore, despite the fact old Union Township has been incorporated into Big Rock Township, that geographic area remains "dry" until another local option is held which would encompass the old Union Township or a larger geographic entity. The certified election results of the old Union Township are on file with the County Court Clerk in compliance with Arkansas' local option act and this cannot be used to attack the validity of the election.

It would seem the only chance for successfully building the brewery would be to convince the ABC the site is not within the old Union Township or convince the ABC and ultimately the courts that Arkansas should adopt the minority position that when "wet" and "dry" areas are joined, the resulting entity becomes all "wet."

Pick-

I visited with Letti
Ward + gave her a copy
of your memo and
with Ken Sherrin. Please
see Ken about a strategy
to approach the ABC
to argue the "dissolved
township" theory.

Thanks,
Hillary

Chavez Madison Community

10C

MEMO

TO: Becky Arnold
FROM: Rick Donovan RD
RE: Madison Guaranty S & L / I.D.C.
DATE: January 16, 1986

Becky, we represent a client who would like to build a beer brewery in an area which the Alcoholic Beverage Control Board contends is "dry". They contend it is dry because the area is located in what use to be the Old Union Township south of the river in Pulaski County. We know that in 1953 a "wet/dry" election was held in Old Union Township and the Township voted "dry".

However, since then Pulaski County has been divided into two townships, Big Rock - south of the river and Hill - north of the river. I need for you or for someone to go to the County Court Clerk's office and look through their microfilm of county court records from 1953 until the present time and try to locate the record of the County Court's action in dissolving, merging, or rezoning the Old Union Township.

If you find an entry that is remotely relevant, please make a note or obtain copies if possible. As discussed if you do not have time to do this please delegate to another paralegal. I would like the search done before the end of the week if possible.

MEMO

TO: Hillary Clinton
FROM: Rick Donovan
RE: Madison Guaranty v. IDC
"Wet/Dry" Issue
DATE: January 23, 1986

This memo is a followup to the previous memo on the same issue addressing some of the concerns raised during our last conference.

I. WHAT WAS THE LEGAL ACTION TAKEN TO DISSOLVE
THE UNION TOWNSHIP

After a search of the County Court records it was discovered that on February 29, 1960 the Pulaski County Court Judge ordered that all of the eight townships south of the Arkansas River in Pulaski County, including Union Township, be consolidated into one township to be known as Big Rock Township. This order was made upon the petition of the Pulaski County Election Commission. A copy of that petition and order are attached hereto. This action was taken pursuant to Ark. Stat. Ann. §18-101 which gives County Courts the authority to divide the county into convenient townships, subdivide townships already established and alter township lines. County Courts have the full power over formation of townships within their respective counties including the power to abolish townships already formed. Caldwell v. Board of Election Commissioners, 236 Ark. 719, 368 S.W.2d 85 (1963).

In 1977 with the passage of Amendment 55 of the Arkansas Constitution which established the Quorum Court system control over the County Court, Ark. Stat. Ann § 18-101 was repealed and replaced with Ark. Stat. Ann § 17-3401 which gives the power to the Quorum Court to rearrange and/or abolish townships.

II. WHAT IS THE EFFECT OF DISSOLUTION OF A
TOWNSHIP ON A "WET/DRY" ELECTION RESULT

I have conducted additional research on this issue and on the issue of the effect of dissolution of townships generally. My conclusion remains the same that the overwhelming majority of cases hold that the consolidation, dissolution or merger of a given political entity which had voted "wet or dry" pursuant to a local option election retains its "wet or dry" status even though it is incorporated into a "wet" political/geographic entity.

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To determine the only case which holds the position of the 1920 case of Williams v. Williams, 211 U.S. 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000.

The majority rule is accordingly stated by the Texas Supreme Court in Hutchins v. Higgins, 112 Tex. 411, 113 S.W. 1149, 1150, 1151, 1152, 1153, 1154, 1155, 1156, 1157, 1158, 1159, 1160, 1161, 1162, 1163, 1164, 1165, 1166, 1167, 1168, 1169, 1170, 1171, 1172, 1173, 1174, 1175, 1176, 1177, 1178, 1179, 1180, 1181, 1182, 1183, 1184, 1185, 1186, 1187, 1188, 1189, 1190, 1191, 1192, 1193, 1194, 1195, 1196, 1197, 1198, 1199, 1200, 1201, 1202, 1203, 1204, 1205, 1206, 1207, 1208, 1209, 1210, 1211, 1212, 1213, 1214, 1215, 1216, 1217, 1218, 1219, 1220, 1221, 1222, 1223, 1224, 1225, 1226, 1227, 1228, 1229, 1230, 1231, 1232, 1233, 1234, 1235, 1236, 1237, 1238, 1239, 1240, 1241, 1242, 1243, 1244, 1245, 1246, 1247, 1248, 1249, 1250, 1251, 1252, 1253, 1254, 1255, 1256, 1257, 1258, 1259, 1260, 1261, 1262, 1263, 1264, 1265, 1266, 1267, 1268, 1269, 1270, 1271, 1272, 1273, 1274, 1275, 1276, 1277, 1278, 1279, 1280, 1281, 1282, 1283, 1284, 1285, 1286, 1287, 1288, 1289, 1290, 1291, 1292, 1293, 1294, 1295, 1296, 1297, 1298, 1299, 1300, 1301, 1302, 1303, 1304, 1305, 1306, 1307, 1308, 1309, 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1974, 1975, 1976, 1977, 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000.

In other words, it was certainly the law at the time the City of Houston Heights voted to dissolve its corporate existence and annex the territory to the City of Houston that voted as the voters did. It remained my duty to vote as an independent election held in and for the same territorial area which had previously voted for the same territory or even abolition of the political or corporate entity which comprises such area. It is not clear this fact is true of law, 112 Tex. 411, 113 S.W. 1149, 1150, 1151, 1152, 1153, 1154, 1155, 1156, 1157, 1158, 1159, 1160, 1161, 1162, 1163, 1164, 1165, 1166, 1167, 1168, 1169, 1170, 1171, 1172, 1173, 1174, 1175, 1176, 1177, 1178, 1179, 1180, 1181, 1182, 1183, 1184, 1185, 1186, 1187, 1188, 1189, 1190, 1191, 1192, 1193, 1194, 1195, 1196, 1197, 1198, 1199, 1200, 1201, 1202, 1203, 1204, 1205, 1206, 1207, 1208, 1209, 1210, 1211, 1212, 1213, 1214, 1215, 1216, 1217, 1218, 1219, 1220, 1221, 1222, 1223, 1224, 1225, 1226, 1227, 1228, 1229, 1230, 1231, 1232, 1233, 1234, 1235, 1236, 1237, 1238, 1239, 1240, 1241, 1242, 1243, 1244, 1245, 1246, 1247, 1248, 1249, 1250, 1251, 1252, 1253, 1254, 1255, 1256, 1257, 1258, 1259, 1260, 1261, 1262, 1263, 1264, 1265, 1266, 1267, 1268, 1269, 1270, 1271, 1272, 1273, 1274, 1275, 1276, 1277, 1278, 1279, 1280, 1281, 1282, 1283, 1284, 1285, 1286, 1287, 1288, 1289, 1290, 1291, 1292, 1293, 1294, 1295, 1296, 1297, 1298, 1299, 1300, 1301, 1302, 1303, 1304, 1305, 1306, 1307, 1308, 1309, 1310, 1311, 1312, 1313, 1314, 1315, 1316, 1317, 1318, 1319, 1320, 1321, 1322, 1323, 1324, 1325, 1326, 1327, 1328, 1329, 1330, 1331, 1332, 1333, 1334, 1335, 1336, 1337, 1338, 1339, 1340, 1341, 1342, 1343, 1344, 1345, 1346, 1347, 1348, 1349, 1350, 1351, 1352, 1353, 1354, 1355, 1356, 1357, 1358, 1359, 1360, 1361, 1362, 1363, 1364, 1365, 1366, 1367, 1368, 1369, 1370, 1371, 1372, 1373, 1374, 1375, 1376, 1377, 1378, 1379, 1380, 1381, 1382, 1383, 1384, 1385, 1386, 1387, 1388, 1389, 1390, 1391, 1392, 1393, 1394, 1395, 1396, 1397, 1398, 1399, 1400, 1401, 1402, 1403, 1404, 1405, 1406, 1407, 1408, 1409, 1410, 1411, 1412, 1413, 1414, 1415, 1416, 1417, 1418, 1419, 1420, 1421, 1422, 1423, 1424, 1425, 1426, 1427, 1428, 1429, 1430, 1431, 1432, 1433, 1434, 1435, 1436, 1437, 1438, 1439, 1440, 1441, 1442, 1443, 1444, 1445, 1446, 1447, 1448, 1449, 1450, 1451, 1452, 1453, 1454, 1455, 1456, 1457, 1458, 1459, 1460, 1461, 1462, 1463, 1464, 1465, 1466, 1467, 1468, 1469, 1470, 1471, 1472, 1473, 1474, 1475, 1476, 1477, 1478, 1479, 1480, 1481, 1482, 1483, 1484, 1485, 1486, 1487, 1488, 1489, 1490, 1491, 1492, 1493, 1494, 1495, 1496, 1497, 1498, 1499, 1500, 1501, 1502, 1503, 1504, 1505, 1506, 1507, 1508, 1509, 1510, 1511, 1512, 1513, 1514, 1515, 1516, 1517, 1518, 1519, 1520, 1521, 1522, 1523, 1524, 1525, 1526, 1527, 1528, 1529, 1530, 1531, 1532, 1533, 1534, 1535, 1536, 1537, 1538, 1539, 1540, 1541, 1542, 1543, 1544, 1545, 1546, 1547, 1548, 1549, 1550, 1551, 15

MEMO

February 7, 1986

TO: Jim Guy Tucker

FROM: Jim McDougal

It looks like our township is dry. Attached is a legal opinion Seth got from his attorney.

JM/ss

Att

0000090

MEMORANDUM

TO: Hillary Clinton
FROM: Rick Donovan
DATE: February 17, 1986
RE: Madison Guaranty Savings & Loan/IDC

0000090

I. FACTS

Madison Guaranty Savings & Loan Association ("Madison Guaranty") purchased property ("IDC Development") owned by the Industrial Development Company of Little Rock ("IDC"). Industrial Services Company ("ISC"), a wholly owned subsidiary of IDC, furnished sewer and water service to a number of patrons who obtained their title directly or indirectly through the IDC chain of title. These patrons can be considered "residents" of the IDC Development. Madison Guaranty purchased ISC's sewer and water service and continues to furnish those services to various patrons within the IDC Development.

Madison Guaranty/IDC would like to sell water to a business outside the IDC Development and also to another real estate development, Maple Creek.

II. QUESTION PRESENTED

Is or should Madison Guaranty/IDC become a public utility and what is the effect of that characterization and can Madison

RLF2 02932

Guaranty/IDC sell water to a business outside the IDC Development and to another real estate development, Maple Creek?

III. CONCLUSION

Madison Guaranty/IDC is a public utility and as such is governed by various state laws and regulations. However, for purposes of the jurisdiction of the Arkansas Public Service Commission ("PSC"), Madison Guaranty/IDC would have to either submit itself to the jurisdiction of the PSC through a declaratory judgment action before the PSC or await PSC scrutiny in the event a patron complains to the PSC regarding rates charged or services rendered by Madison Guaranty/IDC. Many small water and sewage companies such as Madison Guaranty/IDC never become regulated by the PSC as "public utilities" even though they fall within the statutory definition.

Even if Madison Guaranty/IDC does not submit itself to or become regulated by the PSC, it is required to obtain licenses and permits from the Arkansas Board of Health and the Arkansas Pollution Control System.

Assuming an expansion of water and sewer services to customers outside the IDC Development does not impede or impair services to present patrons, Madison Guaranty/IDC is free to extend its services beyond the IDC Development.

IV. DISCUSSIONA. MADISON GUARANTY/IDC APPEARS TO BE A PUBLIC UTILITY.

One question raised is whether or not Madison Guaranty/IDC should become a public utility and what the effect of such a characterization would be. Under the common law and the Arkansas Legislature's statutory definition of a "public utility," Madison Guaranty/IDC, by its operation of the waterworks and sewer plant at the IDC Development, would appear to be a "public utility."

Generally speaking, a public utility has been described as a business organization which regularly supplies the public with some commodity or service such as electricity, gas, water, transportation, or telephone or telegraph service. 73B C.J.S. Public Utilities § 2. A well recognized test of whether an entity is a public utility is whether or not that entity holds itself out, expressly or impliedly, as engaged in the business of supplying a product or service to the public, as a class, or to any limited portion of it, as distinguished from holding itself out as serving or ready to serve only particular individuals. Natural Gas Service Co. v. SERV-YU Cooperative, 70 Ariz. 235, 219 P.2d 324 (1950).

The Arkansas Legislature has statutorily defined a "public utility" for purposes of state regulation of public utilities by the PSC. Ark. Stat. Ann. § 73-201(d)(2) (Repl. 1973) provides:

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The term "public utility," when used in this Act, includes persons and corporations, or their lessees, trustees, and receivers, now or hereafter owning or operating in this state, equipment or facilities for:

(2) Diverting, developing, pumping, impounding, distributing, or furnishing water to, or for, the public for compensation.

* * *

(7) Maintaining a sewage collection system and/or a sewage treatment plant, intercepting sewers, outfall sewers, force mains, pumping stations, ejector stations, and other appurtenances necessary or useful for the collection and/or treatment, purification and disposal of the liquid and solid waste, sewage, night soil and industrial waste. Provided, nothing in this paragraph shall be construed to include sewerage facilities and equipment of cities and towns in the definition of public utility.

It is a fact question whether Madison Guaranty/IDC meets the statutory definition of a "public utility" and falls within the common law definition of a "public utility." From the facts presented, it would appear Madison Guaranty/IDC meets these definitions. It is irrelevant to the question of whether Madison Guaranty/IDC is a "public utility" that it has not submitted itself to the regulatory jurisdiction of the state or that the state has not yet assumed control and jurisdiction or has failed to or refused to assume such control over the corporation. Wisconsin Tract Co. v. Green Bay Canal Co., 188 Wis. 54, 205 N.W. 551 (1925). Similarly, the fact that the conduct of the enterprise in the past has been considered by the

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enterprise and the patrons as a purely private contract is not conclusive on the issue of whether or not the entity is a "public utility." Eagle Bus Lines v. Illinois Commerce Commission, 3 Ill. 2d 66, 119 N.E.2d 915 (1954). Given the determination that Madison Guaranty/IDC is a "public utility" for purposes of supplying water and sewer to the various residents of the real estate development, the next question is what is the effect of being a "public utility."

B. WHAT IS THE EFFECT OF BEING A PUBLIC UTILITY?

The first effect of being a "public utility" is that the utility comes within the jurisdiction of the PSC. As mentioned above, it would appear Madison Guaranty/IDC meets the statutory definition of a "public utility" for purposes of PSC jurisdiction. However, I had a telephone conversation with a member of the PSC legal staff to determine, as a matter of practice, whether Madison Guaranty/IDC comes within the PSC's jurisdiction. I was informed that there are many private, non-franchised companies providing water and sewage facilities to residents of unincorporated real estate developments who are not regulated by the PSC. I was informed that these providing companies rarely come to the attention of the PSC unless a patron lodges a formal complaint to the PSC regarding rates charged or services rendered. At that point, the PSC makes an initial factual determination as to whether the providing company

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is a "public utility" subject to the PSC's jurisdiction. The only other way the providing company becomes a "public utility" for purposes of PSC jurisdiction is to bring a declaratory judgment action before the PSC for such a determination. The PSC legal staff could not recall such a small providing company bringing such an action because of the costs involved and because those companies would not readily submit themselves to perceived burdensome regulation. For the purposes of this memo, assuming Madison Guaranty/IDC becomes a "public utility" regulated by the PSC, the following requirements must be met.

The first requirement entails regulation of rate making. Ark. Stat. Ann. § 73-204 requires that the rates of "public utilities" be reasonable and:

(b) Every public utility shall furnish, provide and maintain such adequate and efficient service instrumentalities, equipment and facilities and shall promote the safety, health, comfort, requirements and convenience of its patrons, employees and the public.

All rates must be billed in accordance with PSC schedules. Ark. Stat. Ann. § 73-205.1. Violation of this billing requirement can result in a civil sanction of \$1,000.00. Moreover, each instance of violation shall constitute a separate violation. Provided, however, that in the case of a continued violation, each day's continuance shall not be deemed a separate violation. Ark. Stat. Ann. § 73-205.2 (Supp. 1965). All rates

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must be based on the reading of meters and all bills and statements must show the number of units charged for with an accompanying monetary sanction for violation of up to \$50.00. Ark. Stat. Ann. § 73-212 (Repl. 1957). It is also illegal for a public utility to charge a disconnection fee with an accompanying monetary sanction for violation of up to \$50.00. Ark. Stat. Ann. § § 73-204.1, 73-204.3 (Repl. 1957).

In addition, if the IDC Development ever became franchised as a municipality, the utility would be subject to purchase by the municipality. Ark. Stat. Ann. § 73-245 provides:

Any municipality shall have the power, subject to provisions of this act, to acquire by purchase or otherwise, or construct and operate a public utility plant and equipment, or any part thereof, for the production, transmission, delivery or furnishing of any public service.

If the utility and the municipality cannot reach a decision as to what is "just compensation" for the purchase of the utility, it will be determined by the PSC. Ark. Stat. Ann. § 73-247.

While many small water/sewer providers to unincorporated residential developments never become regulated by the PSC, there exists a certain danger in not complying with the above outlined requirements. Civil sanctions can be imposed by the PSC in the event of a formal complaint filed by a patron followed by a PSC determination that the offending company is a

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"public utility." On the other hand, costs saved by non-regulation may make the risks palatable.

Regardless of whether Madison Guaranty/IDC is a "public utility" for purposes of the PSC outlined above, Madison Guaranty/IDC is required to obtain licenses and permits from the Arkansas Board of Health and the Arkansas Pollution Control Commission in order to operate the water and sewer treatment facilities.

C. MADISON GUARANTY/IDC IS REQUIRED TO OBTAIN A WATER-WORKS OPERATOR'S LICENSE FROM THE ARKANSAS STATE BOARD OF HEALTH.

Regardless of whether or not Madison Guaranty/IDC is considered a "public utility" for purposes of regulation by the PSC, it is required to obtain a water-works operator's license from the Arkansas State Board of Health in order to avoid possible criminal penalties.

Ark. Stat. Ann. § 71-1701 provides:

In order to safeguard the public health, all operators of municipal public water supplies from which water is sold, distributed, or otherwise offered for human consumption, whether such water supplies be publicly or privately owned and operated, shall be duly licensed and certified as competent by the Arkansas State Board of Health under provisions of this Act (§§ 71-1701 - 71-1713) and under such rules and regulations as said Board may adopt under the provisions of this Act.

The Act defines an "operator" as:

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Any person who, during the performance of his regular duties, exercises individual judgment by which either directly or indirectly the safety, quality and quantity of water delivered from the water supply system might be affected. Ark. Stat. Ann. § 71-1702.

Although the statute states that such a water-works operator's license is required of a municipal water-works, telephone conversations with the Arkansas State Board of Health reveal that it would consider the Madison Guaranty/IDC water works which delivers water to the residents of a real estate development to be within the purview of Ark. Stat. Ann. § 71-1701. The Act also provides certain penalties for violation of the Act. As stated at Ark. Stat. Ann. § 71-1712:

As soon as this Act becomes a law, it shall be unlawful for any person, municipality, political subdivision, corporation, or any authority that furnishes water for domestic consumption to operate any type of water system unless the operator in charge is duly licensed and certified competent by the Arkansas State Board of Health, and it shall be unlawful for any person to perform the duties of such an operator without being duly licensed or to falsely represent himself as a licensed operator.

The Act provides for penalties of \$10 to \$100 and up to 30 days in the County Jail for violations.

D. MADISON GUARANTY/IDC IS REQUIRED TO OBTAIN A WASTE WATER TREATMENT PERMIT.

In addition to the water-works operator's license, the state would also require Madison Guaranty/IDC to obtain a waste water

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treatment permit if the sewage system results in the discharge into any waters of the state. Ark. Stat. Ann. § 82-1908 provides:

It shall be unlawful for any person to engage in any of the following acts without first having obtained a written permit from the Commission:

(a) To construct, install, modify or operate any disposal system or any part thereof or any extension or addition thereto that will discharge into any waters of the state.

Ark. Stat. Ann. § 82-1902 defines "disposal system" as:

A system for disposing of sewage, industrial wastes, and other wastes including sewer systems and treatment works. "Sewer system" means pipelines, conduits, pumping stations and all other constructions, devices, and appurtenances appurtenant thereto, used for conducting sewage, industrial wastes or other wastes. "Treatment works" means any plant, disposal field, lagoon, dam, pumping station, constructed drainage ditch or surface water intercepting ditch, incinerator, area devoted to sanitary landfills, or other works not specifically mentioned herein, installed for the purpose of treating, stabilizing or disposing of sewage, industrial waste, or other wastes.

The question is whether or not the Madison Guaranty/IDC sewage system results in the discharge into any waters of the state. From conversations with the Arkansas Pollution Control Commission, invariably most disposal systems result in discharge into the waters of the state. However, this must be determined before Madison Guaranty/IDC becomes required to obtain the permit described above.

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Ark. Stat. Ann. § 82-1983 provides for the obtaining of licenses from the Arkansas Pollution Control Commission under the rules and regulations of that Commission for the operation of a sewage disposal system.

E. MADISON GUARANTY/IDC MAY EXTEND WATER AND SEWAGE SERVICES TO COMPANIES OR RESIDENCES OUTSIDE THE DEVELOPMENT.

Even if Madison Guaranty/IDC would be considered a "public utility" for purposes of PSC jurisdiction and for other common law purposes, it can extend its services to other residences or businesses. A public utility may enter into contracts when reasonable and when not shown to have any tendency to injure the public it is now servicing. Twin City Co. v. Harding Glass Co., 283 U.S. 353, 51 S.Ct. 476, 75 L.Ed. 1112 (1931). This assumes the other potential patrons are not within a municipality which has given a franchise to another water-works operator. In discussions with the PSC legal staff, I was informed such an extension of services is normal and expected among PSC regulated water-works utilities and requires no prior commission approval unless a patron lodges a formal complaint that the extension of services resulted in diminished services to existing patrons.

V. SUMMARY

To summarize, Madison Guaranty/IDC, in all likelihood, meets the statutory and common law definition of a "public utility."

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However, many small providing companies such as Madison Guaranty/IDC are never regulated by the PSC. In order to incur the PSC's active regulation, Madison Guaranty/IDC would bring a declaratory judgment action before the PSC. Otherwise, the PSC would never become aware of Madison Guaranty/IDC unless a patron lodged a formal complaint. PSC jurisdiction would entail substantial regulation particularly regarding rate making. The risk of non-compliance with PSC regulations is civil sanctions.

Notwithstanding PSC jurisdiction, Madison Guaranty/IDC is required to obtain licenses and permits from the State Board of Health and the Pollution Control Commission.

Finally, Madison Guaranty/IDC may extend its services to patrons outside the IDC Development assuming the new patrons are not within a municipality and such extension does not adversely affect service to existing patrons.

RLF2 02943

HIGHLY CONFIDENTIAL

MEMORANDUM

TO: Hillary Clinton
FROM: Rick Donovan
DATE: March 4, 1986
RE: Madison Guaranty Savings and Loan/IDC

I. QUESTION PRESENTED

Does the fact that Madison Guaranty/IDC's potential water customers are within the Little Rock corporate city limits preclude the extension of services to those customers by Madison Guaranty/IDC?

II. CONCLUSION

Merely because the potential water customers are within the Little Rock corporate city limits does not preclude extension of water services by Madison Guaranty/IDC to those potential customers.

III. DISCUSSION

The question raised was whether or not the fact that the potential water customers of Madison Guaranty/IDC were within the corporate city limits of Little Rock would preclude

RS 000941

HIGHLY CONFIDENTIAL

extension of services to those customers. The concern was that the City of Little Rock Water Works would have the exclusive right to extend water services to patrons within the corporate city limits.

First of all, it should be pointed out that there is no state statute or municipal ordinance which grants the City of Little Rock Water Works such an exclusive right. Nor is there any case law which would establish an exclusive right. On the contrary, the common law precludes the municipality from enforcing such an exclusive right.

In researching this issue, I first had a telephone conversation with the legal staff of the Public Service Commission ("PSC"). I was informed by the legal staff of the PSC, when presented with the question addressed herein, that water utilities in Arkansas have no "allocated territories" such as electricity and natural gas. Thus, according to the PSC staff, there is no such thing as "exclusive territory" for a water utility and water utilities are free to offer services where they choose.

I then had a telephone conversation with a manager at the Little Rock Water Works. He informed me that persons within the City of Little Rock corporate city limits are free to obtain water from whatever source they want to. He explained that it is the policy of the City of Little Rock Water Works to install plant back up facilities, sources of supplies, treatment plants,

HIGHLY CONFIDENTIAL

and transmission lines, and it is then up to the individual property owner to install distribution lines to "tie in" to city water. This can be done several different ways, but the usual method is ~~for a subdivision to form a water improvement district.~~ The City of Little Rock Water Works would work closely with the improvement district to see that city water is made available to the subdivision. The Little Rock Water Works spokesperson did state that they discourage private real estate development companies from providing water to its patrons because of the fear that people will not be getting the best service available.

As a general common law rule, a municipality has no authority to enact and enforce ordinances which are designed to compel everyone within the city limits to use municipally-supplied water, if and when available, and to prevent absolutely the repair, alteration, improvement, or operation of a privately owned water system. That is not to say that a municipality cannot use its police powers to protect the health and safety of its citizens to prohibit the sale of water which is dangerous to the public health.

78 AM JUR. 2d WATER WORKS AND WATER COMPANIES § 3. Thus, in Midway v. Midway Nursing and Convalescent Center, Inc., 230 Ga. 777, 195 S.E.2d 452 (1973), the Georgia Supreme Court held that there is no authority, statutory or common law, whereby a city could compel the use of city water or connection to a city water system.

HIGHLY CONFIDENTIAL

In fact, it is a general common law rule that a municipality cannot be compelled to extend its water to an entirely new subdivision within its territorial limits, absent any arbitrary or fraudulent conduct on the part of the city. 78 AM JUR 2d WATER WORKS AND WATER COMPANY § 21. Thus, in Crownhill Homes, Inc. v. San Antonio, 433 S.W.2d 448 (Texas Civil Appeals, 1968), the Texas appellate court rejected the plaintiff real estate developer's argument that the City of San Antonio be compelled to supply city water to newly built subdivision within the corporate city limits. It was up to the real estate developer to find alternative methods for supplying water to the subdivision through a privately owned water system.

IV. SUMMARY

To summarize, merely because the potential Madison Guaranty/IDC water customers are within the Little Rock corporate city limits, Madison Guaranty/IDC is not precluded from extending its water services to those potential patrons. Not only is there no state statute or city ordinance which would preclude such an extension of Madison Guaranty/IDC's water services, but the common law general rule is that a municipality has no authority to enact an ordinance or to require persons within its territorial limits to use municipally supplied water to the exclusion of a privately owned system.

WORK PRODUCTINCOME TAXES PAID BY THE CLINTONS AS REPORTED ON THE IRS 1040
FORM FOR THE YEAR INDICATED

<u>YEAR</u>	<u>AMOUNT</u>
1979	\$59,388
1980	\$17,580
1981	\$25,866
1982	\$21,497
1983	\$30,196
1984	\$22,053
1985	\$18,791
1986	\$30,535
1987	\$38,038
1988	\$38,520
1989	\$37,883
1990	\$50,932
1991	\$48,608
1992	<u>\$70,228</u>
TOTAL	\$510,115 ¹

¹FIGURE CITED ON PAGE 489 OF THE FINAL REPORT.

WORK PRODUCTSUPPORTING DOCUMENTS FOR INTEREST PAYMENTS CLAIMED BY THE CLINTONS
ON THE IRS 1040 FORM AS CITED ON PAGE 482 AND 483 OF THE FINAL
REPORT

<u>YEAR</u>	<u>AMOUNT</u>	<u>SOURCE</u>
1978	\$10,131	1978 1040 TAX RETURN-DKRT900698 FOR INTEREST PAID TO GREAT SOUTHERN LAND CO.
1979	\$11,753	1979 1040 TAX RETURN-DKRT800001 CONSISTING OF \$9,353 FOR INTEREST PAID TO CITIZENS BANK, AND \$2400 DEPOSITED IN THE WWDC ACCOUNT AT UNION BANK
1980	\$13,350	1980 1040 TAX RETURN-DKRT800103 CONSISTING OF \$9,000 PAID TO JIM MCDUGAL AND \$4,350 PAID TO CITIZENS BANK
1984	\$2,811	1984 1040 TAX RETURN-DKRT11000018 FOR INTEREST PAID TO SECURITY BANK
1985	\$2,322	1985 1040 TAX RETURN-133-00004534 FOR INTEREST PAID TO SECURITY BANK
1986	\$1,636	1986 1040 TAX RETURN-133-00004700 FOR INTEREST PAID TO SECURITY BANK
1987	\$2,561	1987 1040 TAX RETURN-133-00004897 FOR INTEREST PAID TO SECURITY BANK
1988	\$1,474	1988 1040 TAX RETURN-133-00005228 FOR INTEREST PAID TO SECURITY BANK

WORK PRODUCT1979-1992 ACCUMULATED TAX LOSSES OF WWDC FROM THE IRS 1120-A FORM

ACCORDING TO DOCUMENT NUMBER 133-00000158, THE WWDC 1120-A IRS FORM FOR THE PERIOD ENDING MAY 31, 1992, THE ACCUMULATED LOSS, AS REPORTED ON LINE 29, WAS \$115,589. THIS AMOUNT IS CITED ON PAGE 489 OF THE FINAL REPORT.

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JANUARY 1996

834-1913

January 31, 1996

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Hon. Alfonse M. D'Amato, Chairman
 Special Committee to Investigate
 Whitewater and Related Matters
 Senate Banking Committee
 534 Dirksen Senate Office Building
 Washington, D.C. 20510-6075

Hon. Paul S. Sarbanes, Ranking Member
 Special Committee to Investigate
 Whitewater and Related Matters
 Senate Banking Committee
 534 Dirksen Senate Office Building
 Washington, D.C. 20510-6075

Dear Chairman D'Amato and Senator Sarbanes:

During my testimony on January 13, 1996, I was asked about a voucher, a copy of which is attached. I was asked "Now, this is a Rose Law Firm voucher, am I right?" and I answered "That's correct." (Tr. at 108). Now that I have had the time to review this document, I believe that answer was incorrect.

I had not seen this document prior to it being shown to me during my testimony. Though I did not recall it as a document produced by Rose Law Firm to the Committee or to any of the other investigators, I incorrectly identified the voucher as a Rose Law Firm document because the words "Rose Law Firm" appear at the bottom of the document and because the question suggested "this is a Rose Law Firm voucher". After reviewing the document further, it appears that the voucher actually was photocopied while laying on top of a Rose Law Firm invoice, thus creating a single paper with the voucher on top half and an incomplete copy of the Rose Law Firm invoice on the bottom half of the page. I have consulted with our accounting department, and I am told that we did not use documents like this in 1985-1986 (as we do not today). Further, the face of the document says "Rose

Hon. Alfonse M. D'Amato
Hon. Paul S. Sarbanes
Page 2
January 31, 1996

Law Firm -- 1/86 Billing', which is the type of entry one would expect by the client and not by the firm.

Our counsel's conversations with the Committee's staff indicate that this document was produced to the Committee by the RTC. I believe this document is not from the Rose Law Firm but instead probably is an internal document from Madison Guaranty or Madison Financial.

I am reviewing the transcript of my testimony to make any corrections that are necessary. However, because this was a significant issue during my testimony, I felt it important to bring this correction to the Committee's attention immediately.

Respectfully,



Ronald M. Clark

Attachment

cc: Alden L. Atkins

535

WFO 93 ✓
 JOURNAL # 4372

ACCOUNT #	ACCOUNT NAME	DEBIT	CREDIT
2630	N/P AGED		
1960	310	53.00	
278.1	Co. for Rep - Jan - 15	4670.35	

DESCRIPTION
 Total for Jan - 15

OWN BY Ang DATE PUT ON GENERAL LEDGER Jan 15 1963

TOTAL 4723.35
 LESS PAYABLES 100.00
 REMAINING RETAINED 4623.35

ROSE LAW FIRM

7TH STORY of Level 1 printed in FULL format.

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May 29, 1996, Wednesday, BC cycle

LENGTH: 212 words

HEADLINE: Whitewater juror says Clinton was "magnificent"

DATELINE: LITTLE ROCK, Ark, May 29

BODY:

A juror in the Whitewater trial said on Tuesday that President Bill Clinton was "magnificent" in his videotaped testimony and that the guilty verdicts against Clinton's former business partners were based on overwhelming documentary evidence.

Colin Capp said he and the other jury members were persuaded that Clinton had nothing to do with any of the illegal loans at the heart of the case, and that they did not believe the testimony of star prosecution witness David Hale.

"President Clinton was magnificent in his presentation. He cleared up a lot of things for us. He just added to the lack of credibility that we had for David Hale," Capp told Reuters late on Tuesday.

He said the jurors considered Hale "an unmitigated liar."

The jury earlier on Tuesday returned a string of guilty verdicts against James and Susan McDougal, who were Clinton's partners in the failed Whitewater real estate venture. James McDougal was convicted on 18 of 19 counts, his former wife on all four against her.

Arkansas Gov. Jim Guy Tucker was also found guilty on two of seven counts of fraud for his role in an alleged \$3 million conspiracy to defraud two federally insured financial institutions. Tucker resigned hours after the verdict came in.

00:32 05-29-96

LANGUAGE: ENGLISH

LOAD-DATE: May 30, 1996

Jurors Say Clinton Testimony Was Credible, but Incidental

By STEPHEN LABATON

LITTLE ROCK, Ark., May 29 — When they finally began their deliberations on May 16, after absorbing three months of tortuous testimony and hundreds of documents about an interlocking chain of complicated financial deals, some of the jurors in the criminal trial of the Whitewater partners James "B." and Susan McDougal discussed the testimony of President Clinton for a few brief moments.

It was the only time they talked about Mr. Clinton's two-and-a-half hours of videotaped deposition, and most of the jurors who have decided to speak publicly felt that the President's words were credible and that he raised questions about the truthfulness of the Government's main witness, David Hale.

But the jurors also saw Mr. Clinton's testimony as peripheral and hardly bothered to consider it further. Some jurors discounted Mr. Hale entirely while others believed in significant portions of his testimony, but all agreed that they would not rely on any one witness when it came to deciding the fate of the McDougals and Gov. Jim Guy Tucker of Arkansas. Instead, jurors said, they relied on their unusually large volume of notes about the 700 exhibits and the testimony of witnesses other than Mr. Hale and the President.

The jurors said that Whitewater prosecutors had presented so much evidence aside from Mr. Hale's testimony that they had no choice but to convict the defendants on virtually all of the charges. And one of the jurors said that if Mr. McDougal had sat silently rather than insisting on taking the stand, against the advice of defense lawyers, there would have been more acquittals and far fewer convictions. "I would have shot Jim McDougal if I had been one of the other defendants," said the juror, Colin C. Capp.

A three-hour interview with Mr. Capp, a 31-year-old car salesman from Little Rock and the son of Al Capp, the cartoonist who created L'il Abner, and accounts provided by five other jurors showed that the nine

Continued on Page D21, Column 1

Whitewater's Future

A day after the Arkansas verdicts, there was disagreement in Washington over whether the Presidential race would be affected. Bob Dole declined substantive comment on the verdict. But there was no shortage of predictions that the issue would receive more scrutiny before the election. News Analysis, page D21.

Jurors View Testimony By President As Incidental

Continued From Page A1

women and three men who sat in judgment were an unusually tightly knit group, even though they were never sequestered.

Each morning they began their deliberation with a prayer for divine inspiration, and most afternoons, they ended with a prayer of thanks that they had survived another intense day. They cast themselves in the roles of the defendants and other witnesses, acting out the scenes that were described in the 21-count indictment to test whether they were believable.

They also took turns at an easel in the tiny jury room, drawing diagrams to illustrate their theories about the participation of the defendants and witnesses in the dealings that prosecutors say sank Madison Guarantee Savings and Loan Association, the financial institution that the McDougals ran and Mrs. Clinton briefly represented as a lawyer before regulators appointed by her husband, then Governor of Arkansas.

To pass the hours of seeming interminable delay during the trial, the jurors played spades. And through most of the trial, they set up a kitty, each kicking in \$2 a week, for ice for their soft drinks and candy to help them keep awake during the hours of dull testimony.

But for all the nation's interest in the trial, which was the result of Mr. Clinton's participation in the case, the jurors said they paid almost no attention to the President because he had provided virtually no illumination on the underlying charges of fraud and conspiracy against the McDougals and Governor Tucker.

Mr. Capp called the President's testimony "magnificent." He said that he and other jurors had come to believe "that David Hale perjured himself" when he testified.

Mr. Hale, the Government's main witness, had told the jurors that he was asked by Mr. Clinton to issue a \$300,000 federally backed loan. During the trial, an agent of the Federal Bureau of Investigation testified that

Mr. Clinton called to the stand by the defense in an attempt to undermine Mr. Hale's credibility, said in videotaped testimony that he never discussed any business with Mr. Hale, who on Friday is scheduled to begin serving a 28-month sentence for two felonies to which he has pleaded guilty.

But the jury foreman, Sandra Wood, said that the President's testimony, "cast little light on the issues" in the trial, although she added that she and other jurors had come to believe Mr. Clinton when he said he had no knowledge of the series of loans that the jurors ultimately found to be fraudulent.

And the jurors said they did not intend by their verdict to send any kind of political message.

"Our verdict was absolutely not meant to be any kind of statement on the President, and it is demeaning to us to think that it was at all politically motivated," said Tracy H. Pleasants, a 30-year-old hospital worker from Conway. Of the defendants, she said: "We fought really hard for their liberty. We were defeated by the evidence."

In fact, Mr. Capp was downright critical of the prosecution. He said that he ultimately believed that the Whitewater independent counsel, Kenneth W. Starr, had been motivated by politics and that he had been offended that Mr. Starr "appeared to be too busy with his private practice to ever bother to show up at the trial."

Mr. Capp, who said he was a regis-

tered independent who had voted for Mr. Clinton in 1992, criticized the chief Whitewater prosecutor in the case, W. Ray Jahn, saying he was unnecessarily disrespectful in his cross-examination of the President, and called another prosecutor, Jackie Bennett, a "schoolyard bully."

"Ken Starr wanted to do something to embarrass the State of Arkansas," Mr. Capp continued. "He couldn't get the President, so he did the next best thing and got the Governor. And David Hale invoked the President's name for one reason: to save his butt. We all thought that way."

None of the other jurors who were interviewed were as critical of the prosecutor, and all agreed that they had ignored the politics surrounding the case. Rather, they said they had

and, describing himself as a natural salesman, said he talked more than most of the other jurors, expounding on his views on business and the difference between legitimate deals and fraudulent ones as the jurors went through each element of each offense.

Following the order of the verdict sheets they were given by the judge, George Howard Jr. of the Federal District Court here, the jurors decided to first consider the 12 charges against Mr. McDougal and then turn to the 4 counts against his former wife, Susan, and the 7 counts against Mr. Tucker.

But by May 20 they were confused about the charges and overwhelmed by their notes and exhibits. Calling for help, they asked for an index of exhibits and a list of the charges.

Once each juror was given a copy of the indictment, they proceeded to examine the lesser counts against Mr. McDougal, and by the middle of last week ended with more counting

A verdict that was not intended to be a

political message.

reached their verdicts after a cool analysis of the testimony, of the checks and promissory notes and multiple bank accounts and shell companies that demonstrated that the McDougals and Mr. Tucker had committed fraud.

"One of the instructions we got from the judge was that we shouldn't leave our common sense at the door when we got in the jury room," Mr. Capp said. "We didn't."

The jurors were drawn from many walks of life, and included two nurses, a public school teacher, a factory worker, a payroll official from a state agency, a switchboard operator, a painter at a local lumber yard and a retired teletypist.

Judging by their first votes, it looked like a consensus among the jurors might prove elusive. On four successive votes on May 16, they deadlocked 6 to 6 about whether Ms. Wood or Mr. Capp should be their leader. Ultimately, Ms. Pleasants said, they flipped a coin and Ms. Wood, a 38-year-old nurse from Russellville, prevailed.

But in a sign that the jurors were willing to work closely together, Ms. Wood immediately invited Mr. Capp to sit with her at the head of the table, as a kind of informal co-head of the jury, to help lead the jury through their deliberations.

Mr. Capp accepted the invitation

conspiracy count. They found him guilty of 18 of the 19 counts.

Mr. Capp said that Mr. McDougal's two days of rambling and contentious testimony helped convince the panel that he could not be believed. "I thought McDougal killed himself and hurt the others," he said. "There would have been different verdicts all around if McDougal had kept his mouth shut. They should have just put Clinton on and rested."

They also had a relatively easy time with Mrs. McDougal, Mr. Capp said, finding her guilty of four felonies associated with the same loan that Mr. Hale had said Mr. Clinton had solicited.

Turning to Governor Tucker, the jury struggled. By Friday, the day before the Memorial Day weekend, the jurors had agreed to convict Mr. Tucker on one mail fraud count and acquit him on most of the other charges. But they were deadlocked, 9-to-3, in favor of the biggest count against the Governor, alleging conspiracy. Mr. Capp said he was one of the holdouts.

They left exhausted for the weekend, with some under the mistaken impression that there would be a mistrial on all the counts unless they were able to reach agreement on the final count against Mr. Tucker.

Shortly after noon on Tuesday, the last holdouts turned, and the jurors announced that they had convicted Mr. Tucker for conspiracy as well as mail fraud, making him the first Arkansas Governor in history to be convicted of a felony.

AP J5362 rn arar- AR-Whitewater Trial-Jurors, 1st Ld-Wait 05-23 S 38p

Juror Says There Is No Evidence That Clinton At Fault in Whitewater

EDS: CORRECTS spelling of Riggs to Briggs throughout
dlkkfonstff

By DAVID A. LIEB

Associated Press Writer

LITTLE ROCK (AP) - Jurors couldn't have heard from a bigger witness, but in the jury room they largely ignored what President Clinton had to say during the Whitewater trial.

The jurors also said there was no evidence presented at the 13-week trial to suggest Clinton had anything to do with the fraud and conspiracy charges brought against Gov. Jim Guy Tucker and James and Susan McDougal.

Juror Risa Gayle Briggs said she and fellow panelists hinged their guilty verdicts on the piles of documents presented by prosecutors and the supporting testimony of 32 prosecution witnesses.

But Briggs said jurors gave little credence to the testimony of former Banker David Hale, pumped by prosecutors as their chief witness.

Asked after the trial if there was evidence suggesting the need for further Whitewater investigations into Clinton, Briggs said: "No. I don't think there is enough evidence."

But Briggs said she has a 3-inch-thick binder, plus two legal notepads, full of evidence that Clinton's business partners, the McDougals, and his successor as Arkansas governor, Tucker, were guilty of benefiting from nearly \$5 million in fraudulent loans from two federally backed banks, including the McDougals' Madison Guaranty Saving and Loan.

"There was a lot evidence, a lot of testimony," Briggs, 41, told The Associated Press.

"There were so many witnesses presented and called, we were able to use all the other witnesses," Briggs added. "We didn't need to use David Hale's testimony."

Hale testified for nine days, saying he expected Clinton to benefit from a \$300,000 loan made to Susan McDougal and to help pay it back. The loan was never repaid.

Hale claimed two years ago that President Clinton pressured him to make the loan to Mrs. McDougal, a claim Clinton denied during videotaped testimony played for jurors May 9.

"I didn't believe a thing Hale said," said Earnest Williams Jr., an alternate juror. "To me the president really didn't have anything to do with this... Hale didn't prove a thing to me."

Added Briggs: "President Clinton is a very credible witness, but his testimony didn't really relate to the transactions we were dealing with."

Briggs said jurors went methodically through each of the 30 indictments, deciding the fate first of McDougal, then Mrs McDougal and finally of Tucker.

"We stood united through the whole time," Briggs said. "We went through each count and each defendant separately - we never wavered."

Williams, who was not in the room while jurors deliberated, said he would have made a similar decision.

"I wasn't too surprised. I knew Jim McDougal would get it," Williams said. "When they (the defense attorneys) closed too quick and put him on the stand, that messed him up."

Williams said the guilty verdicts against Tucker were a tougher call.

"I was kind of in limbo. I was a little surprised by that," he said.

At times the stress and pressure of the trial got to jurors, said Briggs, who had a tear on her face Friday after a morning of tough deliberations.

"I'm just real emotional. Trying to decide the fate of three lives, to me, that's a hard thing to do," Briggs said.

ABC NEWS

47 West 68th Street, New York, NY 10023
 Transcripts: Journal Graphics, Inc., 1636 Grant Street, Denver, CO 80204
 Press contact: Su-Lin Chang (303) 733-6596

May 28, 1996
 Transcript #3917

NIGHTLINE**McDougals, Tucker Guilty in Arkansas Trial**

In Washington

TED KOPPEL Host

Guests

In Russellville, Arkansas

SANDY WOOD Whitewater Jury Foreperson

In New Haven, Connecticut

Sen. **CHRISTOPHER DODD** (D), Chairman, Democratic National Committee
 In New York

Sen. **ALFONSE D'AMATO** (R), Chairman, Whitewater Committee

Report From ABC News Correspondents
DAVE MARASH, in Washington

TOM BETTAG Executive Producer

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This transcript has not yet been checked against videotape and cannot, for that reason, be guaranteed as to accuracy of speakers and spelling. (JPM)

ABC NEWS NIGHTLINE #0917 Air Date: May 28, 1996

McDougal, Tucker Guilty in Arkansas Trial

ANNOUNCER: May 28th, 1996.

TED KOFFEL: (voice-over) Verdicts are in on the Whitewater trial: Jim McDougal, guilty of 18 of 19 charges; Susan McDougal, guilty of all four counts; Arkansas governor Jim Guy Tucker, guilty of two of seven charges.

Pres. BILL CLINTON: The jury has decided. I was asked to give testimony. I did that, and for me, it's time to go back to work.

JOSEPH DIGENNOVA (q/t): For the President, this is a much more disturbing day than the White House lets on at this point.

JIM STEWART: The possibility still remains that the President or the First Lady could face charges resulting from this.

TED KOFFEL: (voice-over) Tonight, bad news for the defendants could be even worse political news for the President.

ANNOUNCER: This is ABC News Nightline. Reporting from Washington, Ted Koppel.

TED KOFFEL: Plain unvarnished truth is likely to be in even shorter supply than usual here in Washington for the next day or so. After more than a week of deliberation, a jury in Little Rock, Arkansas — and the foreperson of that jury will be joining us in just a few minutes — the jury found some friends and former business partners of Bill and Hillary Clinton guilty of a number of felonies relating to the so-called Whitewater affair. That clearly is not good news for the President, who had been hoping that Whitewater would disappear as a campaign issue this year. Still, the White House and its surrogates will be working overtime to convince the country that what happened in Little Rock today should be of no consequence whatsoever to President Clinton.

If you've ever wondered what is meant by the phrase putting a spin on the news, that's an example of it, but so, too, on the other side of the issue, is what Newt Gingrich's spokesman offered as an assessment this afternoon. "At 5:05 P.M. today," said Tony Blankley (sp?), "the cover-up began to unravel." Somewhere between Mr. Blankley's prediction of doom and the studied nonchalance of the White House lies this report from Nightline correspondent Dave Marash.

Gov. JIM GUY TUCKER: Although I know I am innocent of all charges made, I must accept the verdict of the jury while I appeal.

DAVE MARASH: (voice-over) Today's biggest immediate loser in Little Rock may have been Arkansas governor Jim Guy Tucker. Within hours of conviction on just two of the seven counts against him, Tucker

resigned his office.

JIM McDOUGAL: I'm a little bit surprised, but I don't have any hard feelings toward this jury.

DAVE MARASH: (voice-over) Jim McDougal, the former proprietor of the busted Madigan Savings and Loan, was already a ruined man. After today's conviction on 18 of 19 criminal counts, he stood with his lawyer, Sam Fower (sp?), placidly facing a possible 84 years in federal prison.

JIM McDOUGAL: This didn't turn out exactly the way Sam and I wanted it to, but I said from the start what this jury and this judge did I would consider fair, and I accept that.

DAVE MARASH: (voice-over) If McDougal accepted the verdict, his former wife Susan, convicted on all four counts for her role in an illegal \$300,000 loan, did not. Bobby McDaniel (sp?) was her attorney.

BORRY McDANIEL: She does not approve of it. She disagrees with it. She respects the system, but the system is not always perfect. She maintains her innocence.

DAVE MARASH: (voice-over) There are suggestions the defendants may appeal today's verdict, but law professor Jonathan Borley is dismissive of their chances.

JONATHAN TURLEY: The odds of this conviction being overturned on appeal are somewhere between zero and nil. I mean, you had a great jury, a very good judge, and all the parties agree a pretty fair trial.

DAVE MARASH: (voice-over) And the winners? In Little Rock, the prosecutor who tried the case, W. Ray Yawn (sp?).

W. RAY YAWN: It's also, it gives you a warm feeling when the jury accepts your interpretation of some of the evidence.

DAVE MARASH: (voice-over) And in Washington, Yawn's boss, special prosecutor Kenneth Starr, was beaming.

KENNETH STARR: For the jurors to set aside whatever may be happening in the public domain, and to try as best they can to do their duty, this really is a vindication of a justice system that ultimately depends upon what the jurors themselves described as integrity.

DAVE MARASH: (voice-over) Joseph DiGenova, himself a former special prosecutor, sees Starr newly empowered.

JOSEPH DIGENNOVA: Well, there's just absolutely no question that the Clintons' two partners, the Jim and Susan McDougal (sic), were convicted of multiple felonies in this case, and that gives Whitewater now a credibility, the investigation of Whitewater, a credibility and a vibrance and a rebirth which makes it hard for it to go away anytime soon.

KENNETH STARR: What now? We move forward.

DAVE MARASH: What's next for Starr? A trial in three weeks of bankers accused of giving illegal help to Governor Bill Clinton's 1990 reelection campaign, but several Washington lawyers suggest an even bigger

step in investigating the President might be turning Susan McDougal into a witness for the prosecution.

JONATHAN TURLEY: There's no question the first call would go to Susan McDougal. Seventeen years is a very serious matter to be contemplating tonight, and that's what she's going to be doing. Seventeen years is a penitentiary, even if you do half of it, is a long damn time.

JOSEPH DIGENOVA: She's a much younger person, with much more of her life ahead of her, and some of the stories about her relationships with the various peoples *(sic)* in this case, in terms of the way she was turned on, would make her, perhaps, a much more likely prospect for prosecutors to want to sit down and talk to, and because she is more vulnerable, she'll be more believable.

DAVE MARASH: *(voice-over)* Susan McDougal may be the marquee name among potential witnesses for the White House to worry about, but Jim Stewart, the author of a recent book critical of the Clintons' Whitewater performance, says—

JIM STEWART: The biggest effect may be on people whose names who have not even been identified as part of this investigation, other potential defendants, potential witnesses who, having seen the results in this case, will be calling independent counsel now and saying, "Let's talk."

DAVE MARASH: *(voice-over)* President Clinton, the man who may be politically as well as legally beset by today's developments, chose to focus his only reaction on the plight of those convicted.

Pres. BILL CLINTON: As I said, for me, it's more of a personal thing today. I'm very sorry for them personally.

DAVE MARASH: *(voice-over)* The President was asked about his testimony, countering corrupt banker David Hale, who said Clinton pressed for the loan to Susan McDougal.

REPORTER: Did the jurors not believe you?

Pres. BILL CLINTON: Oh, you ought to ask them that. I doubt that. I doubt that that's what was going on, but you ought to ask them. I don't know.

DAVE MARASH: *(voice-over)* And First Lady Hillary Rodham Clinton, asked tonight for her reaction, declined to give one to reporters.

(on camera) Among the likely effects of today's verdicts, more attention for the final report of Senator Alfonse D'Amato's Whitewater committee, and renewed energy for the special prosecutor's criminal investigations, including, says a source close to Starr's office, continuing close focus on the President and First Lady. I'm Dave Marash for Nightline, in Washington.

TED KOPPEL: Later in the program, I'll be talking to senators Alfonse D'Amato and Chris Dodd, but first, when we come back, the question of what convinced the jurors and how President Clinton's testimony played. We'll talk to the foreperson of the jury in a moment.

(Commercial break)

TED KOPPEL: Joining us now live from Russellville,

Arkansas, the foreperson of the Whitewater trial jury, Sandy Wood.

Ms. Wood, even the people who were convicted by you and your colleagues today have been very respectful of the jury. Everyone seems to think that this was an extraordinary jury. You took a long time, eight days. What took so long?

SANDY WOOD, Whitewater Jury Foreperson: We very, very carefully considered all the evidence, and we had a lot of evidence to consider. We took the evidence and dissected it, and looked at it from multiple angles, and tried to make sure that the government had, indeed, proved its case beyond a reasonable doubt and that we would all be comfortable with the decisions that we were making.

TED KOPPEL: You must have known, even as you were considering the particulars of this case, that the whole country, indeed, the whole world was watching what was going on there because something unprecedented, more or less unprecedented, had happened, in that the President of the United States testified by videotape. You may have heard him answer a reporter's question before, when he said—a reporter said, "Does this mean that the jury didn't believe you?" and the President said, "I don't think that's what it meant, but you'll have to ask the jury." Okay, I'm asking.

SANDY WOOD: Okay. Yes, I did hear that. And no, that's not what that meant. The President's credibility was never an issue, and it—I've been asked that all afternoon, does this mean you believed the President and not David Hale? And it doesn't mean that at all. On some of the issues, we were able to take parts of both testimony and use it. The President didn't always shed a lot of light on the individual transactions that we were looking at. We were looking at some details of some pretty complex transactions, and he just—

TED KOPPEL: Now, the President—

SANDY WOOD: —he just didn't have knowledge of those.

TED KOPPEL: —well, either didn't have knowledge or, some would say, he gave some rather lawyerly responses, and what they usually mean by that is he was very careful, could not be accused of not having spoken the truth, but said things in such a way that it was sort of a very narrow answer. Did you have that sense of it at all?

SANDY WOOD: Oh, well, no, sir, I really didn't come away from it with that. I just felt like he was talking us, to the best of his knowledge, what he knew.

TED KOPPEL: Do you understand why it was that the defense called him in the first place? I mean, apparently, you're—you're telling me it didn't—the President's testimony didn't play much of a role one way or the other.

SANDY WOOD: That's—that's what I'm telling you, and no, I don't really have a sense as to— to what his purpose was to be, other than to cast a bad light on David Hale.

TED KOPPEL: As you were considering the verdict, and when you were all beginning to talk together for the first time, did the subject of the larger ramifications of this story come up at all? In other words, did anyone ever raise what all of us on the outside are thinking and talking

pent, and going to be talking about tonight also, namely, is issue of the— the political impact of the Whitewater case? Did that even enter into your discussions?

ANDY WOOD: No. We— we left all of the politics aside of the deliberation room. We were charged with a pretty complex charge, to go in there and consider those— the indictments, and so we focused all of our energy and pretty much just put— had tunnel vision and looked at what we needed to look at to come up with those— those indictments.

TED KOPPEL: And when it finally came down, then, to the verdict, no real argument about it?

SANDY WOOD: No. No. We— we— we continued to discuss the evidence until everyone felt comfortable.

TED KOPPEL: Ms. Wood, thank you very much, indeed. I— I really do appreciate your coming in tonight.

SANDY WOOD: You're welcome. Thank you.

TED KOPPEL: When we come back, I'll be joined by senators Alfonse D'Amato and Chris Dodd (sic), (Commercial break)

TED KOPPEL: Joining us now from our affiliate, WTNH in New Haven, Connecticut, Senator Chris Dodd is chairman of the Democratic National Committee and a member of the Senate special committee on Whitewater. I saw Senator Dodd, my brain said Senator Dodd, my mouth said Chris Dodd. I apologize.

Sen. CHRISTOPHER DODD, (D), Chairman, Democratic National Committee: That's all right.

TED KOPPEL: Senator Alfonse D'Amato is the chairman of that Senate committee and also the co-chairman of the Dole campaign. He joins us from our New York studio.

Senator D'Amato, where does— let me, first of all, be as good as my word to you. You told me, when you and I spoke on the phone before, you do not want to engage in a partisan sort of debate on this program tonight, and that's perfectly fine, because I have questions for you and I have questions for Senator Dodd, and I don't think it needs to turn into a debate. But where does your committee go next?

Sen. ALFONSE D'AMATO, (R), Chairman, Senate Whitewater Committee: Well, we— we're going to continue, Ted, as we've indicated and agreed, an attempt to get all of the witnesses that we possibly can before the expiration date of June 14th, and let me be clear about that. David Hale has been subpoenaed by the committee. He has rejected coming before the committee through his attorney, indicating that he would plead the Fifth Amendment. Now, possibly he'll reconsider. We think it's important that the committee and the American people get the facts, but we're not going to alter our course. Our pledge is to get done by June 14th, that is the public part of it, and to make our report on the 15th. But I think, clearly, the jury has spoken and I think it demonstrates the seriousness of the Whitewater tragedy, and—

TED KOPPEL: Tell me what you think— tell me what you think that jury said today, other than that Susan McDougal, James McDougal, and Governor Tucker are guilty of felonies. What— what, beyond that, has the jury said today?

Sen. ALFONSE D'AMATO: Well, they were able to go through a very complex matter, and it was complex, and admittedly so, and not something that's entertaining, and determine that this savings and loan operated— the Madison Guaranty Savings and Loan— operated by McDougal, was used as a dispenser of millions of dollars of taxpayers' money to a— a group of friends and political insiders, and that there really is substance to the Whitewater investigation, as opposed—

TED KOPPEL: Are you—

Sen. ALFONSE D'AMATO: —to it being challenged, as it has, as being just a partisan, without any substance. And I think the jury has— has certainly demonstrated that it— that this is real.

TED KOPPEL: The jury, quite clearly— and— and we just heard from Ms. Wood, the stenographer— who very plainly stated that they were not saying anything beyond this particular case, insofar as it related to these particular defendants. Do you think that this somehow says something more, as far as the President and the First Lady are concerned?

Sen. ALFONSE D'AMATO: No, I think what it does demonstrate, though, Ted, quite clearly, is that there was wrongdoing, it was substantial. We are charged, our committee, with the responsibility of getting as many of the facts as we can. We are not criminal prosecutors, that's up to the special counsel, but this was not some kind of partisan, one-sided political adventure. And we're going to attempt to finish our hearing in a thorough, comprehensive manner, getting the facts. We're not— we're not there for entertainment purposes. It may not have been spine-chilling or riveting, but I think we have conducted ourselves in a thorough and a comprehensive and in a fair manner, and that's what we're going to do. We—

TED KOPPEL: Senator, let— let me just turn to Senator Dodd now for a moment. This— this clearly has not been a good day for the White House. That doesn't mean that there is any specific inference that can be drawn, but at least in terms of impressions, not the best day they've had for a while.

Sen. CHRISTOPHER DODD: Well, I wouldn't disagree with that. Obviously, all the news is making the connection here, but I think it's important to pick up on what Ms. Woods (sic) had to say here, that the question of the President's credibility played little or no bearing in the jury's decision. The trial had nothing to do with Whitewater whatsoever. This was an entirely separate matter, and it's important to make a distinction between guilt and guilt by association, something that people in Washington are very familiar with. And here, the President knew these people, actually was involved in a transaction with them. They then became involved in a transaction separate and solely from what has been— what the President's been accused of by some. They are found guilty of that separate transaction, and because they had a previous relationship, they're therefore guilt— guilty by association.

Now, clearly, this is going to be used by some politically. I understand that. The President understands that. But we

pe that a sense of fairness, that people will be smart
able to distinguish between someone who was a
or in a case with which they had nothing to do, and a
or persons who were defendants in a case and found

KOPPEL: Senator Dodd, let me— let me focus on
the words you've just used. You're referring to the
sense of fairness and smartness.

CHRISTOPHER DODD: Mm-hmm.

KOPPEL: There is no doubt, in my mind — and I'll
insisted in hearing what you will say, that had the
one down with a different verdict, had everyone been
not guilty of all counts, the White House would have
d into the breach and said, "Here, immediately, is
we have been looking for. The Whitewater affair was
anything to be concerned about and should not say
be any part of this ongoing presidential campaign."
was fair to say that, then why is it not now fair to say
averse. "Now, apparently, there is something to this
and there are other things to be looked at?"

CHRISTOPHER DODD: Well, I'm going to try to
rate, if I can have, Ted, between what— what the
dispute, if you will, might say, and what the media
I say, and those who are charged with analyzing the
here. This was a separate matter, entirely, from
water, had nothing to do with Whitewater,
lives—

KOPPEL: But you're not dis— but you're not
grooming with what I'm saying.

CHRISTOPHER DODD: I understand.

KOPPEL: Had they all been found not guilty, the—
know, the White House would have jumped up and
l, "Hallelujah, everyone's not guilty."

CHRISTOPHER DODD: We certainly would have
— we certainly would have had a better day, there's no
sion about that. I don't deny that. What we're talking
us here is trying to analyze this so that the person
ing at home tonight listening to this program can
ferstand what this is about. And the more that we
mat over and over again, this is a Whitewater matter, in
ence, then in a sense we make the linkage here. Again,
make the point to hear. This case had nothing to do
th Whitewater. The McDougals asked the President to
tily on their behalf. The jury, as the foreperson here
id, that they didn't really use the testimony of the
evident that much because the documentary evidence
is so overwhelming, 800 items, I'm told, that it was
ally more of a case based on documentary evidence than
rimonial evidence. But yet guilty parties who are
sociated with other people, they're contaminated in some
ry. It's important that we try and separate.

KOPPEL: Senator D'Amato, do you— do you have
y quarrel with that? You were trying very hard to keep
is, at the moment, at least, from becoming a— a partisan
fair. In that spirit, will you acknowledge the point that
ctor Dodd is making?

ALFONSE D'AMATO: Yeah, let me say this to you.
seems to me that when Chris and I are able to—, to
peak to this issue, he will admit, notwithstanding that we

may have had some disagreements on how to go about
certain things, that the work of our committee has been
conducted in a— in a fair and impartial manner. That
doesn't— now—

KOPPEL: Forgive me, I want to— I want to use the
last few minutes that we've got—

Sen. ALFONSE D'AMATO: Yeah.

KOPPEL: —I'm not talking about the work of your
committee.

Sen. ALFONSE D'AMATO: Sure.

KOPPEL: I'm talking about the relevance of what
happened today in— in Little Rock.

Sen. ALFONSE D'AMATO: Yeah. Let me say this to you.

You can't jump to any conclusions on the basis of the
convictions that were made. That would be improper. The
question about Mr. Hale, we would certainly like to get
him in front of the committee so that we can ask him
whether or not certain things that we've read about and
some things that he testified to are true or not true, and—
and judge for ourselves and have the American people
make that judgment. I can't— I'm not in a position to—
to say how credible he is, and I certainly would hope that he
would come forward at this point in time. We're going to
renew our request. The Democrats have joined in that.

Sen. CHRISTOPHER DODD: And I would agree with Al
on that.

Sen. ALFONSE D'AMATO: And we'll— and we'll see if—
if he's a credible witness and if there are additional facts
that—

KOPPEL: We are—

Sen. ALFONSE D'AMATO: —that will go further.

KOPPEL: —Senator, we're literally down to our last
minute.

Sen. ALFONSE D'AMATO: Sure.

KOPPEL: Let me pose this question, first to
Senator Dodd and then the same question to Senator
D'Amato. This does revitalize the independent counsel's
mission, does it not?

Sen. CHRISTOPHER DODD: Well, I think that
certainly he's more emboldened today, and people use
those words. There's no question about that. There are
separate questions about Mr. Starr and his own particular
problems with a conflict of interest, but nonetheless, he
certainly feels, I'm certain, more— more encouraged today
because of this decision in Arkansas, albeit an entirely
separate matter, and I'll make that point over and over
again here, an entirely separate matter from Whitewater.

KOPPEL: Senator D'Amato, the last 20 seconds are
yours.

Sen. ALFONSE D'AMATO: Certainly gives validity to
his inquiry, and I think it answers a lot of the charges that
have been hurled at both Mr. Starr and— and our
committee.

KOPPEL: Senator Dodd, Senator D'Amato, thank
you both very much for coming in so late.

Sen. CHRISTOPHER DODD: Thank you.

Sen. ALFONSE D'AMATO: Good being with you.

KOPPEL: I'll be back in a moment.

[Commercial break]

ED KOPPEL: Tomorrow night on Nightline, the polls by the race for prime minister of Israel is too close to call. We'll bring you up-to-the-minute results in an election that some believe may reshape the peace process in the Middle East. That's tomorrow night on Nightline.

And that's our report for tonight. I'm Ted Koppel in Washington. For all of us here at ABC News, good night.

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HEADLINE: GOP Takes Sights on White House With Whitewater Verdict

GUESTS: Gov. HOWARD DEAN (D-VT); Gov. TOMMY THOMPSON (R-WI); MIKE McCURRY, White House Press Secretary; WILLIAM KRISTOL, Editor, "The National Revi

BYLINE: BERNARD SHAW;

HIGHLIGHT:

The opposite of White House hopes occurred in yesterday's Whitewater verdicts. Damage control is already working quickly to allay the damages, but the GOP has taken aim at using it to their own ends.

BODY:

JUDY WOODRUFF, Anchor: The president's rapid-response team would seem to have its hands full today after the guilty verdicts in the Whitewater trial, but this damage-control duty is especially tricky given the political history of the case and criticism of the way the Clintons dealt with it in the past.

Our Wolf Blitzer is on fall-out watch at the White House.

WOLF BLITZER, Senior White House Correspondent: For President Clinton and his aides, Whitewater has always been a dreaded wild card. They were hoping the Little Rock jury would deliver not guilty verdicts, throwing a potential knock-out punch at independent counsel Kenneth Starr's investigation. But the opposite has occurred, reviving questions about everyone involved, including the Clintons.

On this day after the bomb shell, Mr. Clinton was trying to project a business-as-usual confidence, meeting with educators and students and with Democratic governors who emerged to defend him.

Gov. HOWARD DEAN (D-VT): Since this really didn't have anything to do with the president, the president's testimony was not relevant to their- to the case.

WOLF BLITZER: Trying to distance the president from the verdicts, the White House released a fact sheet with quotes from several jurors who said they believed Mr. Clinton's testimony. Still, Republicans say the verdicts raise serious questions about Mr. Clinton.

Gov. TOMMY THOMPSON (R-WI): It's going to be a very important issue. It goes to character, it goes to reliability.

MIKE McCURRY, White House Press Secretary: I do think it's not surprising that some Republicans are attempting to make partisan political gain out of the jury verdict.

WOLF BLITZER: But some Republican strategists say presidential candidate Bob Dole is wise to stay away from Whitewater.

WILLIAM KRISTOL, Editor, 'The National Review': I think if he addresses it, then it does become political. Now, Ken Starr is doing the Lord's work, or at least Bob Dole's work here, not- that those aren't his motives.

WOLF BLITZER: The president telephoned convicted Arkansas Governor Jim Guy Tucker to express his sympathies. Tucker, found guilty on two of seven counts, has announced he is resigning.

He and the Clintons' former Whitewater business partners, James and Susan McDougal, are but the latest Arkansans whose fates have been effected by Mr. Clinton's election. The White House Deputy Counsel Vince Foster committed suicide and the Associate Attorney General Webster Hubbell [sp] is serving a prison sentence for falsifying his old law firm's billing records.

All that is a source of personal sadness at the White House, but there is a potentially more serious nightmare - namely, that new witnesses may now step forward with possibly damaging evidence against the president and first lady or that someone already convicted may now decide to cooperate with the prosecutors to get a reduced prison sentence.

Wolf Blitzer, CNN, the White House.

Whitewater Jurors Do Not Fault President for Testimony

JUDY WOODRUFF, Anchor: The White House spin on yesterday's verdict includes juror comments touting Mr. Clinton's credibility. For details on what part the president's testimony played in the panel's deliberation, we have this report from national correspondent Gene Randall.

GENE RANDALL, Political Correspondent: Defense lawyers had gambled on the president - and lost. He was their star witness - their only witness other than defendant James McDougal, Mr. Clinton's one-time business partner. The president's videotape testimony was meant to undermine the credibility of chief prosecution witness David Hale. Several jurors said he had done just that.

TRACY PLEASANTS, Whitewater Juror: I just felt as though he was telling the truth, and I wasn't so sure about David Hale.

GENE RANDALL: Well, then why the guilty verdicts, especially those related to the illegal loan to Susan McDougal? David Hale says then-governor Bill Clinton pressured him to make that loan.

SANDY WOOD, Whitewater Jury Forewoman: We utilized very little of President Clinton's testimony, not because it wasn't credible, but because it just didn't shed a light on the transactions that we were looking at.

GENE RANDALL: Jurors say it was the mountain of documentary evidence that produced the guilty verdicts.

LAURA MALAT, Whitewater Juror: I think we tried - to the excess, maybe even - to make sure that we had several pieces of documentation, several testimonies, before we gave our verdict.

GENE RANDALL: In its closing argument, the prosecution told the jury it was not the president who was on trial, and it appears Bill Clinton's credibility survived this jury test. One juror, Colin Capp, told a wire service the president had been 'magnificent.' Another, Tracy Pleasants, told us much the same thing.

TRACY PLEASANTS: The president's credibility was- I held him in high esteem as far as credibility. However, he was simply one witness. We did not take one witness' testimony and make a decision on any of the counts.

GENE RANDALL: [on camera] There may soon be a fresh credibility test for President Clinton. Another Whitewater trial is scheduled to begin in three weeks, and he has once again been requested as a witness for the defense.

Judy?

JUDY WOODRUFF: Gene, what about political fallout from the trial there in Arkansas?

GENE RANDALL: Well, there is fallout. As you know, Democratic Governor Jim Guy Tucker was convicted yesterday of mail fraud and conspiracy. He said he will resign. He will be replaced by his Republican lieutenant governor, Mike Huckabee. The wrinkle here - Huckabee is a candidate for the U.S. Senate, for the seat being given up by Democrat David Pryor. Huckabee says he will have an announcement tomorrow; it seems clear he may well drop out of the Senate race to keep what he will soon have, the executive mansion here in Little Rock.

JUDY WOODRUFF: All right. Gene Randall in Little Rock, thanks for that report.

Dole Mum on Whitewater While Stumping California

JUDY WOODRUFF, Anchor: Whether he is heeding strategists' advice or his own political instincts, Bob Dole is staying mum about the Whitewater verdicts. As our Candy Crowley reports, Dole let surrogates do the talking about Whitewater while he talked crime in California.

CANDY CROWLEY, Capitol Hill Correspondent: It may have made bicoastal headlines, but the Whitewater verdict was not on Bob Dole's Wednesday agenda.

Sen. ROBERT DOLE (R-KS), Presidential Candidate: Oh, I don't know. I haven't commented on it, and don't intend to.

CANDY CROWLEY: On a hit-and-run campaign swing through California, Dole stopped off in Southern California park to speak in praise of community anti-gang efforts.

Sen. ROBERT DOLE: They made it work, because they got tired of it. They

wanted their children to enjoy the parks, not the criminals enjoy the parks. They weren't built for criminals, they were built for you.

CANDY CROWLEY: Crime is the focal point of Dole's current trip to California, but, in fact, this trip out West has a single overriding message - Dole is here, not for the first time, not for the last.

Sen. ROBERT DOLE: We're going to spend a lot of time in California. We're serious about California - 54 electoral votes in the Bob Dole column in November. Can't beat it.

CANDY CROWLEY: Being here is important to California Republicans, a sensitive lot who think they lost a number of local seats when George Bush abandoned the state months ahead of the election. Ken Kachigian, a former Reagan operative in charge of Dole's California efforts, says step one is showing up.

KEN KACHIGIAN, Dole National Senior Adviser: Then step number two is to have an aggressive campaign defining- we have to redefine President Clinton, we have to start letting people get exposed to Bob Dole. But it's a long- it's a big hill, a long trip.

CANDY CROWLEY: The Dole campaign hopes to pick up support on three main issues at the heart of California politics - crime, border patrol, and affirmative action. Dole has already said he supports a California initiative which would dismantle most affirmative action programs, a stance at odds with Colin Powell, who often makes the dream team list of most Republicans as the vice presidential candidate.

COLIN POWELL: There are those who do not understand that the progress we have achieved over the past generation must be continued if we wish to bless future generations. And, so, Colin Powell, he believes in affirmative action. I believe it has been good for America.

CANDY CROWLEY: Dole remains unhelpful about his search for a running mate other than to say he wants to look at people outside politics, too, and the search team is headed by an old Kansas friend and former congressman, Bob Ellsworth. Dole may meet with the team this weekend. As for Whitewater, Dole will let others parse the politics. As Kachigian put it, when there's a freight train coming down the tracks, it doesn't make a lot of sense to stand in the way of it.

Candy Crowley, CNN, with the Dole campaign, Redondo Beach, California.

The preceding text has been professionally transcribed. However, although the text has been checked against an audio track, in order to meet rigid distribution and transmission deadlines, it has not yet been proofread against videotape.

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FEDERAL BUREAU OF INVESTIGATION

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Date of transcription 1/25/90

DAVID HALE, President, CAPITAL MANAGEMENT SERVICES, INC., 1910 North Grant, Little Rock, Arkansas, was interviewed in regard to his connection with JIM MC DOUGAL. HALE provided the following information during the interview:

HALE stated that he operates CAPITAL MANAGEMENT SERVICES as a Small Business Investment Corporation (SBIC). SBICs can loan money or invest in small businesses. This is usually a situation wherein the people involved cannot obtain a loan at a normal financial institution. The Small Business Administration (SBA) loans his company money which he turns around and loans out. The guidelines do not allow him to loan money for less than 48 months. CAPITAL MANAGEMENT SERVICES obtained their license from SBA on March 14, 1979. HALE stated that the General Accounting Office (GAO) audits its business every year. He further advised that SBIC's are exempt from state usury laws. The guidelines further restrict him wherein his company is not allowed to own more than 49% of any company as an investment. The most he can lend to any one person or entity is 30% of his total private paid-in capital. However, he can make additional capital contributions at any time.

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Hale stated that he recalled making a \$300,000 loan to SUSAN MC DOUGAL, doing business as MASTER MARKETING. He had been dealing with JIM MC DOUGAL previously on some items and recalled telling JIM MC DOUGAL that he had some money he wanted to lend. HALE offered to lend MC DOUGAL some as a tie-in with some of MADISON GUARANTY SAVINGS AND LOAN ventures. HALE recalled that later on MC DOUGAL mentioned to him that his wife, SUSAN, needed some money for a business. He recalled having an additional discussion with JIM MC DOUGAL regarding this in February, 1986. In March, 1986, SUSAN brought some documents to his office which included the personal financial statement of JIM and SUSAN MC DOUGAL, and the financial statement of MADISON GUARANTY SAVINGS AND LOAN. SUSAN told HALE that she was going to use the money to

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by SA GARY A. AARON/sstDate dictated 10/10/89

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promote MADISON GUARANTY and some new land development. She offered HALE a mortgage on some property which was located near CASTLE GRANDE. The MC DOUGALS personally guaranteed this loan. HALE stated that he declined the mortgage which SUSAN offered on the property because SBA viewed this type of thing more favorable when it is made on an unsecured basis. HALE stated that the loan he made SUSAN was for five years and the loan currently is in default. He has sued the MC DOUGALS and obtained judgement. He has obtained a second lien on their stock. This occurred in April, 1987. He was able to do this because, although he declined the mortgage, he did ask for some additional security and SUSAN offered him a second mortgage on the stock which they had in MADISON GUARANTY. HALE recalled that SUSAN was unable to make the interest payments at one point and, when he called her and JIM MC DOUGAL in either February or March, 1987, he recalled them saying they needed an extension.

HALE stated he knows an individual by the name of DEAN PAUL. He met PAUL through the Jaycees in the early 1970's. He was PAUL's attorney when PAUL was in the coal business and he did recall making some loans to a company PAUL was involved in by the name of YELL FORESTRY PRODUCTS in the early 1980's. HALE stated that YELL FORESTRY PRODUCTS still owes him approximately \$150,000.00.

HALE stated that he recalls being involved in a business called AMERICAN MANUFACTURING CORPORATION (AMC). He recalled that ALLEN DISHONGH discussed becoming involved in this investment. AMC was involved in the ceiling fan and gas grill business. The STEPHENS' and MOCHTAR RIADY wanted to get into the import business. UNITED PACIFIC TRADING would finance the purchase of these fans which were built in Taiwan and AMC would then warehouse the fans once they were brought in this country. HALE stated that STEPHENS later pulled out of this venture and AMC lost a lot of money. AMC had already leased warehouse space and they actually sold some of the fans. HALE stated that DISHONGH never bought any stock in AMC but, at one time, he thought he would. HALE further recalled putting DISHONGH in touch with JIM MC DOUGAL in regard to obtaining a loan; however, he did not know that DISHONGH had listed AMC stock on his financial statement until everything went bad.

HALE recalled JIM MC DOUGAL trying to sell entity called CASTLE SEWER AND WATER. MC DOUGAL had gotten JIM GUY TUCKER and R. D. RANDOLPH involved in this deal. HALE had some additional business dealings with TUCKER and recalled TUCKER visiting with him about this venture. TUCKER told HALE that they would check this out very thoroughly and he recalled that he and TUCKER did a lot of work with an engineer looking at this particular piece of property. It was HALE's recollection that the replacement cost on this property was \$2.5 million and that MC DOUGAL was trying to sell it for \$1.5 million. Additionally, MC DOUGAL guaranteed a certain number of hookups from the CASTLE GRANDE development which made this appear to be a worthwhile investment for TUCKER and RANDOLPH. There was also a possibility the sewer and water company would be providing water services to the city of Wrightsville. HALE did eventually provide a loan to TUCKER and RANDOLPH in the amount of \$150,000.00. HALE stated that no one ever told him why MADISON GUARANTY could not finance 100% of the \$1.5 million purchase price.

In regard to some additional dealings he had with DEAN PAUL, HALE advised that PAUL had been wanting to buy 240 acres which was located off Woodsen Lateral Road for several years. HALE recalled that he told PAUL that he would sell him the 240 acres and a restaurant known as ETTA'S PLACE and an adjacent lot if it could be done wherein HALE could make \$500,000 on the transaction. He subsequently did sell this property to PAUL and the \$500,000.00 which he made he then put into a Certificate of Deposit (CD) at PEOPLES BANK at Russellville. The \$150,000.00 which HALE loaned to TUCKER and RANDOLPH was from a different CD which he can document. HALE stated that he cannot loan money from a new capital contribution in the SBIC until he has received approval for this from SBA. The loan which he made to TUCKER and RANDOLPH had nothing to do with the land sale to DEAN PAUL. HALE advised that the reason for his wanting to do this sale for PAUL was that he was selling some property and putting things in his wife's name as a tax planning vehicle because of his own bad health.

stations, before a customer even turned off the motor, an attendant would be standing stiffly at the window. By the time the gas had been pumped, the attendant was expected to have completed an inventory of the tires, the oil, the underside of the car, and to have washed the windshield. Susan was a precocious, imaginative child, and loved acting in school plays. She dreamed of someday moving to New York and becoming an actress like Fehel Barrymore.

During the summer before her senior year, Susan got a job as a researcher for another political science professor, who decided that his attractive but naive young employee should be introduced to a more worldly man. His first candidate was Cliff Harris, who played football for the Dallas Cowboys. That was perhaps too worldly for Susan, who was tongue-tied on their date. Next he introduced her to his colleague in the department, Jim McDougal, who asked Susan for a date. She was busy. "I only ask a girl once," McDougal warned, then walked away. So Susan asked him for their first date.

Later that summer, McDougal invited Susan to join him for an afternoon with Bob Riley and his wife, Claudia, on the Rileys' pontoon houseboat at De Gray Lake. Susan looked gorgeous in her bathing suit. McDougal prided himself on his unblemished skin, which he took care to shield from the sun's rays. He had a year-round poller that somehow added to his genteel appearance. But this afternoon, he shed his clothes, donned a bathing suit, threw himself into the water, and even water-skied—all, Claudia Riley felt certain, to impress Susan.

McDougal was a Southern gentleman of the old school, and he treated Susan with elaborate courtesy, as if she were Scarlett in *Gone With the Wind*. One afternoon Susan had forgotten her keys, and was locked out of an office where she needed to finish some work. McDougal simply knocked the door down.

Susan was dating another student at the time, but she found McDougal hard to resist. Soon they were seeing each other regularly, even though Susan was still a senior in college. At conservative Ouachita, she was required to be in her room in the women-only dorm every evening by 10 p.m., which cramped McDougal's courtship. It would have been a minor scandal for a prominent professor to be found dating a student. The university president once warned McDougal against corrupting the morality of a student. Still, it all lent a certain illicit excitement to the affair.

One afternoon that fall Jim called, sounding excited. "Bill Clinton is coming down with an advance guy, and he needs a crowd. See what you can do." It was 1975, and the young politician was in the midst of his campaign for Arkansas attorney general.

McDougal and Clinton were already close, even though McDougal was six years older and considered himself vastly more experienced. He still tended to think of Clinton as the twenty-one-year-old "boy" he'd met in 1968 during Fulbright's Senate campaign. It was the first time in three elections that Fulbright faced any opposition, from Jim Johnson, a segregationist supporter of Alabama governor George Wallace. McDougal was running the senator's Arkansas campaign office, and had asked for some help. Lee Williams, then Fulbright's administrative assistant, had called McDougal and said, "I'll send this Clinton boy out to help you."

Clinton, who'd just finished his senior year at Georgetown, had been working for two years on the Senate Foreign Relations Committee staff. He had met Fulbright while attending Boys Nation years before, and the powerful chairman of the Senate Foreign Relations Committee, a former Rhodes Scholar, had encouraged Clinton to apply for the coveted scholarship and had intervened to help assure that Clinton was named as one. Clinton would be heading for Oxford that fall. For the campaign, McDougal assigned Clinton to the post of Fulbright's driver. Clinton took advantage of the long, hot trips out of Little Rock and Hot Springs into the small, impoverished towns of the Delta to talk at length with the senator. One afternoon Fulbright called McDougal and Williams at campaign headquarters from Nashville, Arkansas. It was about 100 degrees and humid. "Something is wrong with our car," Fulbright reported. "We've got the goddamn air-conditioner on," he drawled. McDougal turned to Williams. "Two goddamn Rhodes Scholars in one car out there and they can't figure out why they're making rain." Clinton, it turned out, had been running the air-conditioner with the vents closed.

Shortly after, Fulbright and Clinton pulled into the Arlington Hotel in Hot Springs where Clinton parked the car blocking the main entrance, then left with the car keys. When Fulbright located Clinton he found him arguing about the Vietnam War with a constituent—the editor of the *Hope Star*. Fulbright was furious. "This is not going to happen again," he told McDougal, adding that he was tired of listening to Clinton's incessant chatter about politics

nator for Bob Dole's ill-fated 1988 campaign, and had now turned his indefatigable energy against Clinton, routinely working sixteen-hour days.

Brown and Bossie had become a formidable two-man team. "The truth is a sword to be used in the battle for justice," Brown's grandfather, a logger and member of the anarchist-socialist Industrial Workers of the World, had taught him, and he'd inscribed the maxim in Bossie. Brown's politics had moved to the opposite end of the political spectrum, but he'd inherited his grandfather's zeal. Six foot six, 240 pounds, a former basketball center, Brown had been national vice chairman of the conservative Young Americans for Freedom while a student at the University of Washington. He'd been Midwest director for the 1988 Dole campaign, which took him to Arkansas. But he was best known in political circles as the creator of the "Willie Horton" ad during the 1988 presidential campaign. The ad showed the mug shot of Horton, a black convict who had raped a woman while furloughed under a program approved by Massachusetts governor Michael Dukakis. The ad indelibly stamped Dukakis as a soft-on-crime liberal, even though it was eventually disowned by the Bush campaign. The controversy generated what Brown estimates as \$2 million in free media exposure for the ad, leading Brown to boast at the time that "When we're through, people are going to think that Willie Horton is Michael Dukakis's nephew."

The Judge, as Bossie usually called him, was now living in Conway, Arkansas, about a half hour's drive from Little Rock. Johnson was a crusty country lawyer, a Democrat-turned-Republican, and an opponent of Clinton going back to 1966, when the nineteen-year-old Clinton supported Johnson's opponent in the Democratic gubernatorial primary. Johnson had been the youngest person elected to the Arkansas State Senate, and his politics had veered steadily to the right. In 1964 he was the only statewide elected Democratic official in the country to openly endorse Republican presidential nominee Barry Goldwater, and in 1968 he organized support for Alabama governor George Wallace's third-party presidential campaign. (Arkansas was one of four states carried by Wallace that year.)

Over the years, Johnson's scorn for Clinton had grown more virulent. His views were evident in a 1993 speech he gave at the

C H A P T E R

TWELVE

A few weeks after Foster's death, Citizens United communications director David Bossie was in his office in suburban Fairfax, Virginia, when he got a phone call from one of his best sources, the "Judge." The Judge was Jim Johnson, who'd challenged Fulbright in the same 1968 election in which the young Clinton and McDougal had forged their friendship. Now a retired Arkansas Supreme Court justice, Johnson had been an important source for *Slak Willie: Why America Cannot Find Bill Clinton*, by Floyd Brown, Bossie's boss at Citizens United. The book had come out just in time for the election, but lacked the "silver bullet," as Brown and Bossie put it, to derail the Clinton campaign. In the book's acknowledgments, Brown described Bossie as his "bloodhound," and also mentioned Johnson, who had introduced Bossie and Brown to Clinton detractors all over Arkansas.

Bossie and Johnson made a symbiotic pair. Bossie, twenty-seven, had become the chief investigator for Brown, thirty-two, a conservative political activist who founded Citizens United in 1988 as a reaction to opponents of Supreme Court nominee Robert Bork. With an annual budget of nearly \$3 million, and contributions unfettered by election law limits, the organization had turned its sights almost exclusively on the president, especially after Jennifer Flowers went public with her accounts of an affair with Clinton. Brown attacked Clinton regularly on his daily syndicated radio show, *Talk Back to Washington*, and in his *ClintonWatch: Proving Character Does Count in a President* monthly newsletter. Bossie, of course, had been national youth coordi-

Conservative Political Action conference in Washington. Speaking in his strong Southern drawl, the Judge told the crowd that a friend had given him the following advice about what to say about Clinton: "I guess the first thing you ought to do on behalf of the decent people of Arkansas is apologize to the world for our having fostered [sic] upon them a president of the United States who is a queer-mongering, whore-hopping adulterer; a baby-killing, draft-dodging, dope-tolerating, lying, two-faced, treasonist activist."

Johnson's son, Mark, an aide to former Ways and Means Committee chairman Wilbur Mills, had gotten to know Brown after Brown hired Mark's wife to help run the Dole campaign in Arkansas, and Bossie had gotten to know Mark and his father while in Arkansas looking for material to use against Clinton during the campaign. He and the Judge had stayed in regular contact.

"I've got a friend in trouble," the Judge drawled. He explained that David Hale, who ran a small business lending operation in Little Rock, and was also a lawyer and municipal judge, had been "pressured" by Bill Clinton to make a loan to a business partner of Clinton's. Johnson was a friend of Hale's father, who'd been a farmer active in Democratic politics. Now Hale was under investigation, and prosecutors were ignoring information Hale had about Clinton, the Judge asserted. Hale was "scared," Johnson said, and had come to see Johnson for advice.

David Hale had indisputably fallen on hard times since granting the \$500,000 loan to Susan McDougal in 1986—the loan that Susan had found so easy to come by when she needed the money to buy the International Paper land. Others, too, all supposedly "disadvantaged" borrowers, were defaulting or needing to borrow even more. Hale decided to solve his liquidity crisis with a \$6 million offering of preferred stock (much the same route considered but then abandoned by Madison), and in October 1992 he had approached the Small Business Administration about increasing Capital Management's capital base, a move that would allow him to borrow \$45 million more from the SBA.

To buttress the appearance of Capital Management's financial solidity, Hale met with Wayne Foren, the SBA administrator in Washington overseeing Capital Management, and told him that he had received \$13.8 million in noncash assets as a "donation."

But Foren had trouble figuring out the actual value of most of Hale's assets, so he sent an SBA investigator from San Francisco to

Little Rock to go over Hale's operation. At this point, February 1993, Hale called Foren and said he'd changed his mind and would scrap the preferred stock offering, asking him to "turn back the clock" and just forget that he'd ever applied. But by now the issue of the value of Hale's assets was at the forefront of Foren's concerns, and he was growing skeptical. "David, why on earth would these people have donated their assets to you?" Foren asked.

"Because I have influence in Arkansas, influence with the president, and influence with the governor [Tucker]," Hale replied. Citing a company that had approached him before moving its operations to Arkansas, he added, "They're willing to pay a fee for my influence."

"David, you're scaring me to death," Foren replied. "You should be scared to death. You are a sitting judge. And either these assets are not worth anything or it looks like people are trying to bribe you."

But Hale brushed aside Foren's concerns. "Oh, Wayne, you just don't understand how we do business in Arkansas."

Foren was appalled. He found Hale's claims of influence plausible; he knew Governor Jim City Tucker, Clinton's successor in Arkansas, had borrowed large sums. No doubt Hale thought of these payments as some sort of consulting fee. After additional inquiries failed to provide satisfactory explanations, on May 5 Foren turned the Hale matter over to the SBA's inspector general. That same day, an SBA administrator mentioned Hale's claims to McElary in the White House. Foren, meanwhile, told Hale of his decision, and Hale again begged him to ignore his request for additional capital and call off the investigation. The inspector general, in turn, referred the case to the FBI. On July 20, the day of Foster's death, the FBI obtained a search warrant and the next day raided Hale's offices, seizing his records.

Hale hired a lawyer, Randy Coleman, who got in touch with the new U.S. attorney in Little Rock, Paula Casey, a former legislative assistant to Arkansas senator Dale Bumpers. Even though Coleman limited broadly that Hale had information implicating the "political elite" of Arkansas—and would be willing to enter into an undercover operation to gather additional evidence—Casey and her assistant on the case said they wouldn't consider reducing charges to anything less than a single felony.

In an effort to shore up his story and gain some leverage with

the U.S. attorney, Hale drove down to Arkadelphia to meet with McDougal at his mobile home. Secretly tape-recording the conversation, Hale tried to get McDougal to corroborate his story. But McDougal begged off, saying he remembered almost nothing from those months of 1986, not long before he blacked out and had to be taken to the hospital. McDougal promptly called his lawyer, Sam Heuer, telling him that Hale was quizzing him, and Heuer dutifully reported this to Jim Blair.

In frustration over his own efforts to find corroboration and the failure to strike a plea bargain with the U.S. attorney, Hale had turned to Johnson for advice, and was now visiting the retired judge on an almost daily basis. When Johnson called Bossie, he said he'd urged Hale to tell him his story. "I'll call him this afternoon," Bossie said, even though he was already busy on two other Clinton projects: research into Clinton-appointed Surgeon General Joycelyn Elders and Webster Hubbell. But Johnson must have already called Hale, for even before Bossie could place the call, the phone rang again and it was Hale on the line.

Hale explained that he ran a lending operation called Capital Management Services, which loaned money to disadvantaged entrepreneurs and in return received matching funds from the Small Business Administration. He was now under investigation, and facing a likely indictment, for fraudulently misrepresenting the kinds of loans he was making to the SBA in order to get the matching funds. Instead of legitimate small businesses, many of the loans had actually gone to what Hale, quoting McDougal, described as his Democratic "political family" in Arkansas—Jim Guy Tucker, now Clinton's successor as governor, and the McDougals. The McDougals were business partners with Clinton, he alleged, and the U.S. attorney handling his case, a Clinton appointee, was ignoring his allegations that Clinton had pressured him to make loans to Clinton's friends. He was being "set up as the fall guy," Hale claimed.

Bossie knew Tucker, of course, but he had only a dim memory of the McDougals, probably from Gerth's story the previous March. He searched for descriptions of Whitewater in Brown's book, *Slick Willie*, and found only a brief reference. What did he mean by "pressure"? Bossie wondered.

Hale said that in October 1985—he couldn't remember the precise date—Jim Guy Tucker, then in private practice, and Jim

McDougal had come to him seeking a loan, mentioning real estate deals that Governor Clinton was also involved in, they claimed. Two months later, Hale bumped into Clinton coming out of the State Capitol, and Clinton, in passing, said he hoped Hale would make the loan to McDougal to "help Jim and me out." Hale obliged, issuing loans of \$260,000 to a real estate partnership that included Tucker, \$100,000 for McDougal's Campobello venture, and \$50,000 to Steve Smith. "I didn't ask any questions," Hale said.

Then, in February 1986, Hale said he met with McDougal and Clinton one evening at the Castle Grande development outside Little Rock. McDougal had moved his headquarters—a double-wide mobile home furnished with three desks—there after the FHHBB auditors moved into Madison Guaranty. This time McDougal and Clinton wanted a loan of \$150,000, and Clinton offered to put up land in the Ozarks as collateral, Hale said. Hale pointed out that SBA regulations didn't permit raw land as collateral, so they decided instead to make the loan to another Susan McDougal concern, Master Marketing (as distinguished from Madison Marketing), which had the added benefit of keeping Clinton's and McDougal's names off the loan. Later, the amount of the loan was increased to \$300,000.

In return, Hale claimed, McDougal arranged for Madison Guaranty to finance the purchase of a Hale property for \$825,000, vastly more than the property was actually worth. With those "profits" in hand, Hale was able to extract an additional \$1 million in additional funding from the SBA.

Bossie stayed on the phone with Hale for over two hours, taking notes, asking questions that might later help him corroborate the story. He was almost immediately intrigued. "This was a story he could sink his teeth into, something that went directly to the ethical and financial probity of the president. The Jennifer Flowers story had proven to be a big disappointment. While it had generated a fair amount of media heat, it had proven negligible in the campaign. Looking back, Bossie felt that Clinton had cleverly deflected the whole issue by denying the Flowers affair and attacking her credibility and reputation, though he had all but conceded marital infidelity. He had successfully invoked a right to privacy and showed that he had Hillary's support. Clinton had remained outspoken on ethics and finance, tagging Republicans with the

"greed" decade. This story, Bossie thought, would be perfect for *ClintonWatch*.

As soon as he hung up the phone, Bossie hurried into Brown's office to brief him on Hale's allegations. But Bossie was disappointed by what seemed Brown's lack of enthusiasm. Preoccupied with his syndicated radio show, Brown didn't seem all that interested. Bossie agreed he'd finish up some other projects he was doing for Brown first, but vowed he'd investigate Hale's allegations at the first opportunity.

Besides arranging the call with Bossie, Johnson urged Hale to get in touch with Little Rock lawyer Cliff Jackson. As a Fulbright Scholar, Jackson had been at Oxford at the same time as Clinton, the two had played together on a basketball team, and both harbored political ambitions. Though Jackson was a Republican and supporter of Richard Nixon, he and Clinton both worried about the draft, and when Clinton actually got his notice, he conferred with Jackson, who was about to return to Arkansas. Jackson helped Clinton get admitted to the ROTC program at the University of Arkansas, where Clinton enrolled in law school. But Clinton had returned to Oxford, and had later written a long, impassioned letter to the ROTC commander withdrawing from the unit and asking to be reclassified 1A. He was then subject to the lottery but drew a high number.

This was the story first mentioned by Roy Drew, the Little Rock stockbroker who'd fallen out with Clinton, to both Jeff Gerth and Jeff Birnbaum, and Birnbaum had gone on to break the story in the *Wall Street Journal*. Judge Johnson had been instrumental in gaining a copy of the letter Clinton wrote to the ROTC commander, Colonel Eugene Holmes, and in getting Holmes to come forward publicly with his account. Though Cliff Jackson was actively opposing Clinton in the election, raising money for ads castigating Clinton's record as governor, he'd largely forgotten his interaction with Clinton over the draft, other than a vague feeling that he'd been used when he learned that Clinton had backed out of the Arkansas ROTC unit and applied to Yale Law School instead. He pretty much accepted Clinton's public response, which was that a crisis of conscience born of principled opposition to the war had motivated his change of heart.

Jackson didn't respond to a few press calls seeking more infor-

mation about Clinton and the draft. But one evening, looking for some papers at his house, he found a trunk of old letters from his college years. In one was a copy of a letter he'd written to a girlfriend, describing in detail the steps he'd taken to help Clinton avoid the draft after he received his draft notice—a letter that revealed Clinton had already been drafted before his crisis of conscience. Jackson agonized through a sleepless night, but then decided to release copies of the letter to the press. To Jackson, it was a concrete example of a Clinton pattern: "exploitation followed by deception," as he put it.

Since then, Jackson had become something of a lightning rod for anyone with allegations involving Clinton, such as Judge Johnson or David Hale. Many of them were baseless, and most of them Jackson ignored. Though he had strong convictions that Clinton shouldn't be president, he didn't want to devote his life to investigating him. Jackson wasn't involved with any of the other anti-Clinton forces, like Jerry Falwell, whom he actively disliked. But then, in mid-1993, he got a call from an old and trusted friend, Lynn Davis. Davis said he was calling on behalf of a group of state troopers, including Roger Perry, Larry Patterson, Danny Ferguson, and Ronnie Anderson. Anderson, who had been a state trooper for thirteen years and had joined the governor's detail in 1990, had quickly come to share the others' concerns. The troopers wanted to talk to Jackson about their experiences while working on then-governor Clinton's security detail. The information they had, Davis said, was explosive.

About a month into the Clinton presidency, Perry had called Patterson. The flap over gays in the military was at its height and the administration had already acted to ease restrictions on alcohol. "Can you believe this?" Perry said in dismay. It wasn't that Perry himself felt so strongly about either issue, but at a time when he thought matters like Bosnia and the economy merited the president's attention, he saw these as Hillary's agenda. Even Perry's mother, a liberal Clinton supporter, had expressed bewilderment at Clinton's liberal policies. Perry had explained that Clinton was too weak to stand up to Hillary. "He's smart, book-wise," Perry had told her, "but he's not a good, moral, decent man."

To varying degrees, Patterson, Ferguson, and Anderson shared these views, though each had their own reasons for being upset

AFFIDAVIT OF JOSEPH (MIKE) NARISI

I, Joseph (Mike) Narisi, hereby depose and say:

1. In 1993 I worked as a free-lance video cameraman in Little Rock, Arkansas.

2. In November 1993 , I was hired by NBC News to shoot videotape for a news feature on " Whitewater" and David Hale.

3. On November 4, 1993, I met NBC News producer Ira Silverman and David Bossie at the law office of Randy Coleman in Little Rock, for an on camera interview of David Hale.

4. While I was at Coleman's law office, Bossie greeted employees of the office by their first names and appeared to be well-acquainted with Coleman and the employees at Coleman's law office.

5. Bossie consulted with Hale and Coleman before the taping of the interview began, was present throughout the interview , and prompted Hale during the videotaping of the interview , Bossie conferred with Hale and Silverman about the subject matter to be covered in the interview.

6. On the same day as the interview in Coleman's office , I accompanied Silverman and Bossie to the law office of Sheffield Nelson, which was in the same building as Coleman's office, to shoot videotape of Whitewater-related documents. While in Nelson's office, Bossie greeted employees by their first names and appeared to be well-acquainted with them.

7. On November 6, 1993, I flew to Flippin , Arkansas with Ira Silverman and David Bossie to videotape aerials of the Whitewater property for NBC Nightly News with Tom Brokaw.

8. On January 14, 1994, I accompanied Silverman and Bossie to Fayetteville, Arkansas, to seek to obtain an on-camera interview of Beverly Bassett Schaffer. (Silverman and Bossie traveled together in a separate car.)

9. While parked in front of Beverly Bassett Schaffer's father's law office, Bossie told me that CBS News had attempted to interview a lawyer who represented Arkansas State Troopers who had served in Governor Clinton's security detail, Bossie said he had instructed the lawyer for the State Troopers not to provide an interview to CBS News.

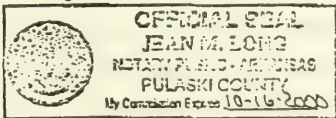
Further affiant sayeth not:

Joseph Mike Narisi
Joseph (Mike) Narisi

~~State of Arkansas~~
~~County of Pulaski~~
Jean M Long

(Notarize Here)

June 13, 1996



1 NBC: And the schemes involving those two entities --
2 HALE: Yes, sir. I --
3 NBC: -- reached the White House?
4 HALE: Yes, sir.
5 NBC: That's what you told your lawyer?
6 HALE: Yes, sir. Went to the President and his wife,
7 and the involvement of the Attorney General of
8 the United States, Webster Hubbell.
9 NBC: Deputy Attorney General?
10 HALE: Yes, sir. Now, when we reviewed those files
11 and he questioned me regarding my knowledge, he
12 went back to the U.S. Attorney's Office in an
13 effort to attempt to negotiate something on my
14 behalf, and he -- the first thing he did, he
15 went back to the U.S. Attorney, Fletcher
16 Jackson, and said, "Fletcher, do you know that
17 there are some very, very high profile
18 political figures involved in all this?" And
19 Fletcher's answer to him was, "We know that
20 Clinton and Tucker were involved, but I've got
21 eight more years to retirement, and I'm not
22 going to get involved."
23 NBC: This is what an assistant U.S. Attorney said to
24 your lawyer?
25 HALE: That is correct.

1 NBC: According to your lawyer?
2 HALE: That's correct.
3 NBC: And that was said to you?
4 HALE: That is correct. My lawyer further, in August,
5 further in August, offered this, he said, "Here
6 is a little guy, David Hale, with a little
7 SBIC, has extreme amount of documents and
8 knowledge about those things that went on at
9 Madison Guaranty Savings & Loan that helped
10 cause its failure." They said, "We are not
11 interested." Now, two weeks ago, those are the
12 very same things that two weeks ago that the
13 R.T.C. referred to this office down here for
14 further investigation. They had told us in
15 August that they weren't interested and didn't
16 want to investigate it.
17 NBC: So the people understand, sitting here today,
18 do you hold yourself blameless for what all
19 went on?
20 HALE: No, sir, no, sir.
21 NBC: You don't?
22 HALE: No, sir, I don't.
23 NBC: You are in the soup?
24 HALE: I'm in the soup.
25 NBC: You are in the soup, you are under

PETRE'S STENOGRAPH SERVICE
(501) 376-1411

1 indictment --

2 HALE: Yes, sir.

3 NBC: -- but you are not complaining?

4 HALE: No, sir.

5 NBC: The government was onto something?

6 HALE: Yes, sir.

7 NBC: So, they are onto some of your behavior?

8 HALE: Yes, sir.

9 NBC: But you feel that whatever happened was not

10 just David Hale?

11 HALE: Right. And the situation is this, there is no

12 way you have -- you have -- once again, you

13 have the sitting Governor, you have the

14 President of the United States, you have his

15 wife, and you have the father-in-law of the

16 Deputy United States Attorney General, and he,

17 himself.

18 NBC: Involved in this?

19 HALE: Involved. And here I am, do you think there is

20 any way in the world that the U.S. Attorney

21 over here, who has served, was appointed by

22 President Clinton, serves at his will, was a

23 class -- was a student of Hillary's, was a

24 student of his, has been appointed by him on

25 several occasions, her husband was appointed to

1 a state position by Governor Clinton, and now
2 serves at the will of Governor Tucker

3 NBC: And you are offering to cooperate?

4 HALE: I had offered to cooperate.

5 NBC: Your lawyer has informed the U.S. Attorney's
6 Office you do want to cooperate?

7 HALE: Yes, sir. And we have been advised -- we have
8 been advised -- now --

9 NBC: And he said, "Thank you very much, we are not
10 interested"?

11 HALE: "We are not interested." And we were -- and my
12 lawyer also wrote them a letter, because of all
13 these inter-relationships between the U.S.
14 Attorney and members of her staff and the
15 people that are involved, that he felt that
16 there was a sincere conflict and this office
17 ought to step aside in order that I could get a
18 fair trial. He is not saying anything about
19 these people being bad people or anything, it
20 is just simply human nature.

21 NBC: Yes.

22 HALE: You are working for somebody.

23 NBC: This is the first time that you have agreed to
24 sit down in that chair --

25 HALE: Yes, sir.



U.S. Department of Justice

Office of the Independent Counsel

Little Rock, Arkansas

March 19, 1994

Randy Coleman, Esq.
 Skokos & Coleman, P.A.
 Suite 3200
 425 West Capital
 Little Rock, Arkansas 72201-3439

U.S. DISTRICT COURT
 EASTERN DISTRICT OF ARKANSAS
FILED
 IN OPEN COURT
 JAMES W. MCCORMACK, CLERK

Re: David L. Hale

BY: AAB
 DEPUTY CLERK 3-22-94

Dear Mr. Coleman:

On the understandings specified below, the Office of the Independent Counsel ("this Office") will accept a guilty plea from David L. Hale to a criminal information charging him with violations of (1) Title 18, United States Code, Section 371, and (2) Title 18, United States Code, Sections 1341 and 2. These charges each carry a maximum sentence of five years' imprisonment, a maximum term of three years' supervised release, a maximum fine of the greatest of \$250,000, twice the gross gain, or twice the gross loss, and a mandatory \$100 special assessment. The total maximum sentence of incarceration on both counts is 10 years' imprisonment.

If David L. Hale fully complies with the understandings specified in this Agreement, he will not be further prosecuted for any crimes related to his participation in the conduct of the affairs of Capital Management Services, Inc., Diversified Capital, Inc., and Madison Guaranty Savings and Loan, and any other crimes, to the extent David L. Hale has disclosed such criminal activity to this Office as of the date of this Agreement.

The understandings are that David L. Hale shall truthfully disclose all information with respect to the activities of himself and others concerning all matters about which this Office inquires of him, shall cooperate fully with this Office, the Federal Bureau of Investigation and any other law enforcement agency so designated by this Office, shall attend all meetings at which his presence is requested with respect to the matters about which this Office inquires of him, and further, shall truthfully testify before the grand jury and/or at any trial or other court proceeding with respect to any matters about

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which this Office may request his testimony. Any assistance David L. Hale may provide to federal criminal investigators shall be pursuant to the specific instructions and control of this Office and those investigators. This obligation of truthful disclosure includes an obligation upon David L. Hale to provide to this Office, upon request, any document, record or other tangible evidence relating to matters about which this Office or any designated law enforcement agency inquires of him.

It is further understood that the sentence to be imposed upon David L. Hale is within the sole discretion of the sentencing judge. This Office cannot and does not make any promise or representation as to what sentence David L. Hale will receive. However, this Office will inform the sentencing judge and the Probation Department of (1) this Agreement; (2) the nature and extent of David L. Hale's activities with respect to this case; (3) the nature and extent of any and all other activities of David L. Hale which this Office deems relevant to sentencing; and (4) the full nature and extent of David L. Hale's cooperation with this Office and the date when such cooperation commenced. In so doing, this Office will use any and all information it deems relevant, including information and statements provided by David L. Hale both prior to and subsequent to the signing of this Agreement. In addition, if it is determined by this Office that David L. Hale has provided substantial assistance in an investigation or prosecution, and if David L. Hale has otherwise complied with the terms of this Agreement, this Office will file a motion, pursuant to Section 5K1.1 of the Sentencing Guidelines, advising the sentencing judge of all relevant facts pertaining to that determination and requesting the Court to sentence David L. Hale in light of the factors set forth in Section 5K1.1(a)(1)-(5).

It is understood that, even if such a motion is filed, the sentence to be imposed on David L. Hale remains within the sole discretion of the sentencing judge. Furthermore, this Office retains the right to present to the sentencing judge and Probation Department, either orally or in writing, any and all facts and arguments relevant to sentencing. It is further understood that this Agreement in no way affects or limits this Office's right to respond to and take positions on post-sentencing motions or requests for information which relate to reduction or modification of sentence.

It is further understood that David L. Hale must at all times give complete, truthful, and accurate information and testimony and must not commit any further crimes whatsoever. Should David L. Hale commit any further crimes or should it be determined that he has given false, incomplete, or misleading testimony or information, or should he otherwise violate any provisions of this Agreement, David L. Hale shall thereafter be

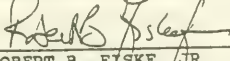
subject to prosecution for any federal criminal violation of which this Office has knowledge, including, but not limited to, perjury and obstruction of justice. Any such prosecutions may be premised upon any information and statements provided by David L. Hale both prior to and subsequent to the signing of this agreement. Moreover, any such prosecutions that are not time-barred by the applicable statute of limitations on the date of the signing of this Agreement may be commenced against David L. Hale in accordance with this Agreement, notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the commencement of any such prosecutions. It is the intent of this Agreement to waive any and all defenses based on the statute of limitations with respect to any prosecutions which are not time-barred on the date this Agreement is signed.

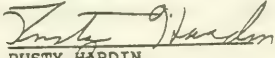
Furthermore, it is agreed that in the event that it is determined that David L. Hale has violated any provision of this Agreement, (i) all statements made by David L. Hale to this Office or other designated law enforcement agents, or any other testimony given by David L. Hale before a grand jury or other tribunal, whether prior to or subsequent to this Agreement, or any leads from such statements or testimony, shall be admissible in evidence in any and all criminal proceedings hereafter brought against David L. Hale and (ii) David L. Hale shall assert no claim under the United States Constitution, any statute, Rule 11(e)(6) of the Federal Rules of Criminal Procedure, Rule 410 of the Federal Rules of Evidence, or any other federal rule, that statements made by him prior to or subsequent to this Agreement, or any leads therefrom, should be suppressed. It is the intent of this Agreement to waive any and all rights in the foregoing respects.

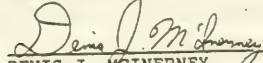
It is further understood that this Office agrees to take steps that the Office determines to be appropriate to assist David L. Hale in maintaining his privacy interests.

With respect to this matter, this Agreement supersedes all prior, if any, understandings, promises and/or conditions between this Office and David L. Hale. No additional promises, agreements, and conditions have been entered into other than those set forth in this letter and none will be entered into unless in writing and signed by all parties.

Very truly yours,


 ROBERT B. FISKE, JR.
 Independent Counsel


 RUSTY HARDIN
 Associate Counsel

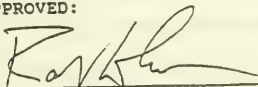

 DENIS J. MCINERNEY
 Associate Counsel

AGREED AND CONSENTED TO:


 David L. Hale

3-19-94
 DATE

APPROVED:


 Randy Coleman, Esq.
 Attorney for David L. Hale

3/19/94 : -
 DATE

1 THE COURT: All right. Thank you.

2 The Court finds that Mr. Hale is competent to
3 go forward with the plea.

4 Now, Mr. Hale, since you are now under oath let
5 me caution you if you were to make any false statement
6 to me during these proceedings this morning that could
7 be used against you in later proceedings for perjury or
8 false statement.

9 Now, if you plead guilty do you understand you
10 have to waive your right not to incriminate yourself
11 because I will ask you questions about what you did in
12 order to satisfy myself that you are in fact guilty and
13 you would have to acknowledge your guilt. Do you
14 understand that?

15 MR.HALE: Yes, sir.

16 THE COURT: All right. Let me ask you a couple
17 of questions regarding your representation by Mr.
18 Coleman. Is Mr. Coleman retained by you or appointed by
19 the Court?

20 MR.HALE: Retained by me, sir.

21 THE COURT: Are you fully satisfied with his
22 representation?

23 MR. HALE: Yes, sir.

24 THE COURT: Do you think there is anything he
25 should have done that he did not do?

Carolyn S. Fant
United States Court Reporter

1 on behalf of Independent Counsel.

2 MR. EWING: Your Honor, we have filed a motion for a
3 downward departure under Section 5K1.1 of the Sentencing
4 Guidelines. I will address a couple of general remarks, and
5 then I will call on Mr. Bob Fiske, who was the original
6 Independent Counsel, to address this, and then to Mr. Starr.

7 Your Honor, we have put in our written motion that the
8 government does recommend a downward departure. When Mr. Hale
9 pled guilty, that was an agreement that Mr. Fiske will speak
10 to. But I point out, Your Honor, that under the Sentencing
11 Guidelines, Your Honor has stated what is in the Presentence
12 Report, but the Sentencing Guidelines does recognize this
13 matter of substantial assistance to the authorities, and it
14 states upon motion for the government, of the government,
15 stating the defendant has provided substantial assistance in
16 the investigation or prosecution of another person, the Court
17 may depart from the guidelines.

18 The appropriate reduction, of course, Your Honor, is up to
19 you. But the Guidelines themselves state that there should be
20 certain considerations, one of which is "... the court's
21 evaluation of the significance and usefulness of the
22 defendant's assistance, taking into consideration the
23 government's evaluation of the assistance rendered". The
24 commentary states: "Substantial weight should be given to the
25 government's evaluation of the extent of the defendant's

Eugenie M. Power
United States Court Reporter

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF ARKANSAS
WESTERN DIVISION

UNITED STATES OF AMERICA)

v.)

LR-CR-93-147

DAVID L. HALE)

SUPERSEDING INFORMATION

THE INDEPENDENT COUNSEL CHARGES:

COUNT ONE

Introduction

1. At all times relevant to this Information:

(a) The Small Business Administration ("SBA") was an agency of the United States Government with responsibility for providing financial assistance to small business investment companies ("SBICs") in order to aid SBICs in lending money to small business concerns. Under the rules governing the SBA, it can loan an SBIC as much as three to four dollars for every dollar of capital received by an SBIC ("paid-in-capital").

(b) Capital Management Services, Inc. ("CMS") was a privately owned SBIC located in Little Rock, Arkansas, which specialized in making loans to what were represented to be socially or economically disadvantaged small business concerns.

(c) Defendant DAVID L. HALE was an owner and the President of CMS.

U.S. DISTRICT COURT
EASTERN DISTRICT OF ARKANSAS

FILED

IN OPEN COURT

JAMES W. McCORMACK, CLERK

BY: DAH

DEPUTY CLERK 3-22-94

7

The Conspiracy

2. From in or about September 1988, up to and including in or about March 1989, in the Eastern District of Arkansas and elsewhere, the defendant DAVID L. HALE, and others known and unknown, unlawfully, willfully and knowingly did combine, conspire, confederate, and agree together and with each other, to defraud the United States, and its agency, namely the SBA.

The Purpose of the Conspiracy

3. The purpose of the conspiracy was to obtain money and property from the SBA by means of false and fraudulent pretenses, representations and promises concerning the paid-in-capital of CMS and the status of certain loans on the books of CMS.

Manner and Means of the Conspiracy

4. It was part of the conspiracy that defendant DAVID L. HALE, with others known and unknown, would and did by deceit, craft, trickery and dishonest means, defraud the United States and its agency, the SBA, in that defendant DAVID L. HALE, with others known and unknown, knowing that the amount of paid-in-capital of CMS and status of loans on the books of CMS would influence the SBA to provide financial assistance to CMS, would and did fraudulently and falsely inflate the amount of the paid-in-capital of CMS and misrepresent the true status of certain loans on the books of CMS.

5. It was a further part of the conspiracy that on or

about November 3, 1988, defendant DAVID L. HALE, with others known and unknown, would and did cause \$800,000 to be transferred from certain accounts at Prudential-Bache, \$400,000 of which would eventually be transferred to a savings account of CMS.

6. It was a further part of the conspiracy that on or about November 4, 1988, defendant DAVID L. HALE, with others known and unknown, would and did cause CMS to receive the remaining \$400,000 by way of cashier's checks purportedly in payment of certain delinquent loans previously extended by CMS.

7. It was a further part of the conspiracy that on or about November 4, 1988, the defendant DAVID L. HALE would and did falsely represent to the SBA that \$400,000 had been invested into CMS, as evidenced by \$400,000 reflected in the CMS account, and that on the basis of the new private paid-in-capital CMS would and did then apply for financing from the SBA in the amount of \$900,000, and that in connection with said application defendant DAVID L. HALE would and did also make false representations concerning the payment status of certain loans to entities through which the remaining \$400,000 was passed.

8. It was a further part of the conspiracy that in or about November, 1988, defendant DAVID L. HALE, with others known and unknown, would and did cause CMS to transfer through several other separate entities the \$800,000, referred to in paragraphs 5 through 7 above, back to the accounts at Prudential-Bache from which the money originally had been transferred.

9. It was a further part of the conspiracy that on or

about March 1, 1989, defendant DAVID L. HALE, with others known and unknown, would and did cause \$275,000 to be transferred from certain accounts at Prudential-Bache, of which \$265,000 was transferred through various entities to CMS to make it appear as though those entities were making payments on delinquent loans with CMS.

10. It was a further part of the conspiracy that on or about March 3, 1989, defendant DAVID L. HALE, with others known and unknown, would and did cause CMS to transfer through a separate entity the \$275,000, referred to in paragraph 9 above, back to the account at Prudential-Bache from which the money originally had been transferred.

11. It was a further part of the conspiracy that on or about March 13, 1989, defendant DAVID L. HALE would and did make false representations to the SBA in connection with CMS's application to the SBA for financing, concerning the payment status of certain loans.

12. It was a further part of the conspiracy that CMS would and did receive \$900,000 in funding from the SBA as a result of the actions described in paragraphs 4 through 11 above, which funding was granted to CMS on March 21, 1989.

Overt Acts

13. In furtherance of the conspiracy, and to effect the objects thereof, the following overt acts, among others, were committed in the Eastern District of Arkansas and elsewhere:

a. In or about September, 1988, defendant DAVID

L. HALE had a meeting with CHARLES MATTHEWS and a Prudential-Bache client of CHARLES MATTHEWS;

b. In or about October, 1988, EUGENE FITZHUGH opened an account at Prudential-Bache;

c. On or about November 4, 1988, defendant DAVID L. HALE caused \$400,000 to be transferred to CMS;

d. On or about November 8, 1988, EUGENE FITZHUGH had discussions with an individual employed by McIntire Numismatic Auctions, Inc.;

e. On or about March 3, 1989, defendant DAVID L. HALE signed a check made payable to Liberty Mortgage, Inc., in the amount of \$275,000;

f. On or about March 3, 1989, defendant DAVID L. HALE had a meeting with CHARLES MATTHEWS and an individual employed by Liberty Mortgage, Inc.; and

g. On or about March 13, 1989, defendant DAVID L. HALE signed a letter addressed to the SBA.

(Title 18, United States Code, Section 371.)

COUNT TWO

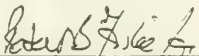
14. The allegations contained in paragraph 1 of this Superseding Information are hereby repeated, realleged and incorporated by reference as though fully set forth herein.

15. From in or about 1985 through in or about 1991, in the Eastern District of Arkansas and elsewhere, defendant DAVID L. HALE and others known and unknown, unlawfully, wilfully and knowingly, devised and attempted to devise a scheme and artifice

to defraud and for obtaining money and property by means of false and fraudulent pretenses, representations, and promises, to wit, HALE and others devised a scheme (a) to obtain money and property belonging to CMS and its shareholders by means of fraud and false and fraudulent pretenses, representations and promises, and (b) to obtain money and property belonging to the SBA by means of fraud and false and fraudulent pretenses, representations and promises. It was a part and object of the scheme that HALE would and did, among other matters, (1) make false statements to the SBA, and (2) misapply CMS and SBA funds for improper purposes.

16. For the purpose of executing and attempting to execute such scheme, HALE caused to be delivered by mail according to the direction thereon, mail matter and things, including, but not limited to, an application for financing that HALE mailed to the SBA on or about February 28, 1986.

(Title 18, United States Code, Sections 1341 and 2.)


ROBERT B. FISKE, JR.
INDEPENDENT COUNSEL

Stodola waits in wings while Starr tackles Hale

BY CHATHAN WEL
Davenport Business Writer

Two years ago, Arkansas Insurance Commissioner Lee Douglas thought David Hale was headed for jail.

But now Hale is a key witness in an independent counsel Kenneth Starr's Whitewater investigation and the insurance case remains on the shelf.

Douglas thought things would turn out differently after his office seized Hale's insolvent burial insurance company, National Savings Life, in 1994.

Many's books indicated that Hale had lied to regulators about the firm's financial health. That would be a felony punishable by three years imprisonment.

Six months later, in April 1994, Douglas entered the case to Pulaski County Prosecuting Attorney Mark Stodola. In time of this year, Stodola told Douglas he expected an indictment "within a few weeks."

Today it's uncertain whether Stodola will ever prosecute Hale, the former Pulaski County



Hale

Continued from Page 1A

1994 judge.

There's been no indictment. And the statute of limitations is set to expire March 1.

Why the delay? A source close to the Hale investigation says Starr has collected a "great mass" of evidence, but with less than four months left to press charges, Stodola doesn't have much time.

Starr refused to talk about the case but says Stodola confirmed that Hale is the investigation's only target but declined to comment further, citing legal issues and investigative privacy that have not been resolved.

Hale couldn't be reached for comment. His former attorney, Philip Coleman, didn't return phone calls last week to his law firm or his business office. His brother, Miles Hale, a North Little Rock attorney, said he hasn't spoken with Hale in two years and doesn't know where he is.

The case dates to March 1, 1993, when National Savings Life Insurance Co. filed its petition for Chapter 11 protection in federal bankruptcy court in Little Rock. Hale had owned the Little Rock company since 1986. The company's 543 agents sold burial insurance, mainly to low income residents, mainly to low income residents, mainly to low income residents.

He would pay for a center and set up a new office in the city. Hale would pay for a center and set up a new office in the city. Hale would pay for a center and set up a new office in the city.

The financial statement showed that the company was in a "pre-insolvency" condition, as defined by §203.25. Douglas ordered Hale to cure the deficiency.

Four months later, on July 9, Hale protested a default filing from Western National Bank of Arkansas showing that \$100,000 had been deposited into company accounts. Accordingly, Douglas withdrew his threat to seize the insurer.

Then, two days before a federal grand jury indicted Hale (see page 2A), National Planning filed a motion to return the money had deposited the money had deposited

spectral Douglas. Immediately, Hale's attorney, John A. Stodola, filed a motion to return the money had deposited the money had deposited.

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Monday
11-20-95

3811



STATE OF ARKANSAS
OFFICE OF THE
PROSECUTING ATTORNEY

MARK STODOLA
PROSECUTING ATTORNEY
SIXTH JUDICIAL DISTRICT
PULASKI & PERRY
COUNTIES

122 S. BROADWAY
LITTLE ROCK, ARKANSAS 72201
PHONE 501 / 340-5000
FAX 501 / 340-5049

February 13, 1996

Mr. Kenneth Starr
Office of the Independent Counsel
Two Financial Centre
10825 Financial Centre Parkway, Suite 134
Little Rock, AR 72211

Dear Mr. Starr:

We have completed our review of a state investigation of David Hale and have decided to charge him with violating Arkansas law. Mr. Hale has not only committed multiple crimes against the federal government, but there is also probable cause to believe he has independently violated state law as well. I understand your preference is that this issue be addressed at Hale's federal sentencing; however, I cannot oblige. My decision is based on several points which I would like to briefly outline to you.

In reviewing this matter, we see no overlap between Hale's felony state insurance law violation and his crimes against the federal government. We would note that none of the corporations referenced in your plea agreement letter with Mr. Hale involve his alleged misrepresentations to the Insurance Department. Also, your office has advised us that none of the witnesses involved in the state investigation have appeared before the federal grand jury. Most importantly, I have an honest fear that no guarantee can be given by you that the State's interest in bringing wrongdoers to justice can be adequately addressed during Hale's federal sentencing.

It is not logical to presume that uncharged, unacknowledged criminal conduct on the part of Mr. Hale will be punished, particularly in light of your plea agreement with Hale which requires that you recommend leniency to the Federal Court in exchange for his cooperation with your prosecution. I do not believe, on the one hand, that a downward departure from the federal sentencing guidelines can be requested while, on the other hand, a request can be made that the Court increase Hale's sentence because he also violated state law. The two legal positions are impossible in conflict with each other.

In making this decision, I am keenly aware that political opportunists may attempt to manipulate this decision to their own personal advantage. However, I will not allow my office, the State Insurance Department, the Little Rock Police Department, or myself to be drawn into the political crossfire of your upcoming trial of the McDougals and Governor Jim Guy Tucker.

Considering that the relevant statute of limitations dates involved in our case run on or about July 6, 1996, please be advised that we will be filing charges by this date. It is not our purpose to interrupt or interfere with your ongoing prosecution; thus, we have elected to refrain from filing these charges immediately. I am confident your case will be concluded before our critical dates approach. However, if for some reason this does not occur, please be assured that we will be filing charges no later than the date referenced above. I am requesting your cooperation in the service of the state arrest warrant when appropriate.

This decision is in keeping with the oath I have taken, is based on sound prosecutorial principles and also prevents partisan criticism that the authority of this office is being used to advance a particular political or legal agenda.

Issues pertaining to whether certain documents were forged have also been reviewed. The investigative file does not provide enough information to go forward with a charging decision and no further information or evidence will clarify this matter. Consequently, the March 1996 statute of limitations issue previously raised in press reports on this matter is no longer relevant.

Ample precedent exists for both federal and state prosecution, particularly since the facts of our case advance a separate interest and do not involve the same evidence. Justice Brennan, speaking for six members of the U.S. Supreme Court, stated in *Abbate v. United States*, 359 U.S. 187, 3 L.Ed.2d 729, 79 S.Ct. 666 (1959):

....no one would suggest that, in order to maintain the effectiveness of federal law enforcement, it is desirable completely to displace state power to prosecute crimes based on acts which might violate federal law. This would bring about a marked change in the distribution of powers to administer criminal justice, for the States under our federal system have the principal responsibility for defining and prosecuting crimes. 3 L.Ed.2d at 734.

See also *Bartkus v. Illinois*, 359 U.S. 121, 3 L.Ed.2d 684, 79 S.Ct. 676, (1959).

This dual sovereignty issue has presented itself to our office on many occasions in the past. Of particular note is the case of State of Arkansas vs. Derrick Campbell, CR 92-2869. In this case Campbell fired gunshots at a passing vehicle, but the bullets missed the vehicle and instead struck a school room filled with students at McClellan High School. Campbell was arrested and charged with thirteen counts of aggravated assault under Arkansas law. Subsequently, the U.S. Attorney's Office, believing this case equally important to advance federal law interests, filed charges against Campbell under 18 U.S.C. 922 (q) for possession and discharge of a weapon within 1,000 feet of a school. He was convicted and sentenced to prison in both state and federal courts.

I would also point out that my colleague Bob Macy, the District Attorney in Oklahoma City, has announced his intention to file separate state capital murder charges against Timothy McVeigh and Terry Nichols, notwithstanding the federal government's present pursuit of capital murder charges against the defendants.

In the final analysis, it is ultimately a decision for the prosecutor, either state or federal, to determine how to best protect society's interest in bringing wrongdoers to justice. In the case at bar, David Hale should be held to answer for what I believe to be his fraudulent representations to the State Insurance Department, which are even more egregious considering that he has also defrauded the federal government.

Thank you for understanding our position.

Most Sincerely,



Mark Stodola
Prosecuting Attorney
Sixth Judicial District

MS:kh

cc: Lee Douglass, Arkansas Insurance Commission
Chief Louie Caudell, Little Rock Police Department

Stodola still wants Hale tried on state charges

BY GRANT TENNILLE
Democrat at Ozarkite Staff Writer

The first Whitewater trial is over but key prosecution witness David Hale may be back in a courtroom again soon.

On Wednesday, Pulaski County Prosecuting Attorney Mark Stodola restated his intention to prosecute Hale for state felony insurance code violations unrelated to the White-water investigation.

Stodola said that the charges will be filed by July 18, the deadline under the statute of limitations.

"As I've indicated, we would never do anything to interfere with what was transpiring in federal court," said Stodola, a Democrat running for the U.S. House of Representatives in the state's 2nd Congressional District. "We will deal with the Insurance Department's complaint in the near future."

The state investigation is based on allegations that Hale lied to the state Insurance Commission about the financial status of National Savings Life Insurance Co., which Hale owned. The case was referred to Stodola by state Insurance Commissioner Leo Douglas in April 1991.

In the past, independent counsel

Kenneth Starr has objected to Stodola's prosecution of Hale, claiming that the local prosecutor should defer to federal interests.

But in March, Starr's deputy, W. Hickman Ewing, said that his government had worked out its differences with Stodola.

Hale became the government's star witness in the Whitewater case when he agreed in early 1991 to provide testimony against Gov. Jim Guy Tucker and co-defendants James and Susan McDougal in exchange for pleading guilty to reduced charges.

Hale pleaded guilty in March 1991 to one felony count each of con-

spiracy and mail fraud for his role in transactions that formed the heart of the indictment against Tucker and the McDougals. The three were accused of participating in schemes in the mid 1980s to defraud the federal government and two financial institutions in transactions involving about \$3 million.

On Tuesday, James McDougal was found guilty of 18 felony counts. Susan McDougal four felony counts and Tucker two felony counts. The three will be sentenced Aug. 19. Hale was sentenced last March to 20 months in federal prison but has yet to report to jail.

AR
Democrat
Gazette
5/22/96

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ARKANSAS GAZETTE

Hale hit with \$468,496 judgment

Pulaski judge involved in land deal that ended in default

By George Wells
Izette Staff

A federal judge has imposed a judgment of \$468,496 plus interest and legal fees against Pulaski County Municipal Judge David Hale over a 1986 land deal that went into default.

The case started as a garden variety foreclosure in Yell County Chancery Court and accumulated a host of parties and charges of fraud, collusion and sexual misconduct before Judge Stephen Reardon ruled May 30.

The case was transferred to federal court by the Federal Deposit

Insurance Corp., which took over Madison Guaranty Savings and Loan Association, which filed the foreclosure. Madison was later declared insolvent.

Efforts to reach Hale on Friday evening were unsuccessful.

In 1986, Dardanelle Development Corp. borrowed \$300,000 from Madison to buy 573 acres of farmland in Yell County. It also signed a second note, secured by a second mortgage for \$176,000, to the family that owned the land.

Hale, the sole stockholder of the development company, guaranteed the note personally.

A second tract of 133 acres owned by the family was included in the sale but not in the mortgage. The development company transferred that land to Fox Enterprises Inc. Little Rock Municipal Traffic Judge William Watt was president of Fox and the Dardanelle Development Corp.

On the same day of the \$476,000 in loans and the guarantee of the \$300,000, Hale's company signed an agreement with Madison Financial Corp., a subsidiary of the thrift that bought and developed land, and its president, James McDougal, to sell the 573 acres for

\$677,500 if the development company succeeded in getting the road to the land paved.

McDougal was indicted by a federal grand jury on charges of defrauding Madison but was acquitted at trial.

No payments ever were made on the \$300,000 loan and Madison filed a foreclosure suit in March 1989. Among the defendants were Mary Croom Gordon of Cleburne County and Caren Croom Ross of Little Rock, trustee of the William H. Croom Jr. Family Trust, which owned the land.

The family filed a counterclaim

See **HALE/11B**

Federal ruling

■ A judgment of \$468,496 plus interest and legal fees was imposed against Pulaski County Municipal Judge David Hale over a 1986 land deal that went into default.

■ The Resolution Trust Corp. was ruled to be given the approximately \$29,000 that the court has been collecting out of the farm income under an agreement by the parties, but the money would be credited against the judgment.

■ The federal judge refused to rule on fraud charges.

Hale

Continued from Page 1B

contending that it had been defrauded of its land through a conspiracy involving Hale, Watt, McDougal and their companies. Because of the fraud, the family said, its \$176,000 second mortgage should have priority over the first mortgage.

The family, however, never filed a foreclosure over its second mortgage, although no payments ever were made on that note.

The family contends that Madison allowed the value of the mortgage to dissipate by not collecting payments on the first note and allowing Hale's company to collect farm income that should have been applied to the note. The parties later agreed to have the farm income deposited into the registry of the federal court.

The thrift's actions had the effect of increasing the indebtedness of Hale's company to the point that the second mortgage was no longer secured, the family contended.

The family also said the conspir-

acy included Standard Abstract and Title Co. of Little Rock, which was the closing agent, and Guy Maris III, the Standard Abstract official who closed the sale. Both were named defendants in the counterclaim. Maris and the title company negligently excluded the 133-acre tract from the mortgage, the family said.

The family asked for its land back, the amount of its note and \$5 million damages for emotional distress and outrageous conduct by the alleged conspirators.

They included Watt and his company as defendants in the counterclaim.

All the defendants denied wrongdoing.

In a deposition, Hale said he set up the development corporation to "save the farm" for the family and that he had no intention of ever owning the land. He said the company's purpose was to refinance the family farm.

The \$300,000 Hale's firm borrowed was used to pay off existing debts on the land, a lawyer for the government told Reasoner at a hearing May 17.

At the same hearing, Bunny

Bullock of Russellville, a lawyer for the family, told Reasoner that "Mr. Hale and Carep Croom [Ross] were having an affair and they were involved in a fiduciary and confidential standing."

Bullock said Hale had assured Ross that McDougal would help them get out of the debt and advised her to "just sit and wait."

Bullock told Reasoner, however, that Ross and Gordon were misled through "the confidential relationship and the fiduciary relationship."

At the hearing, Reasoner granted a motion for summary judgment to the Resolution Trust Corp., which succeeded the FDIC as conservator of Madison, and said he would have the U.S. Marshals Service auction off the 573 acres at the Yell County Courthouse. The judgment included Hale's personal guarantee and covered the \$300,000 principal of the loan and accumulated interest.

Reasoner also said the Resolution Trust Corp. could file a claim for attorney's fees and costs and was entitled to recover \$825 in appraisal costs.

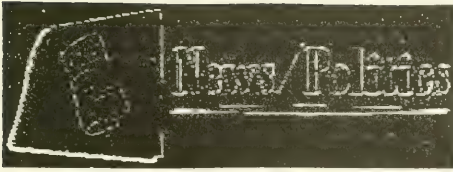
He said his ruling also wiped out the family claims, although he said that if the land was bought at auction for more than the judgment the family could claim part of the difference.

Reasoner also said Resolution Trust Corp. would be given the approximately \$29,000 that the court has been collecting out of the farm income under an agreement by the parties, but the money would be credited against the judgment.

He refused to rule on the fraud charges, other than to say there was no basis for such a claim against Resolution Trust or Madison, and sent the case back to Yell County Chancery Court, where the family may pursue its fraud allegations.

Hale and his company already have a suit pending in Yell County Chancery Court to try to force the federal agency or Madison Financial to buy the land at the agreed price.

A lawyer for Hale and his company told Reasoner that if that deal was completed "we'd have enough to pay everybody off."



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Character witnesses

Two of David Hale's former employees have plenty to say about him--none of it good.

By John Haman

As David Hale, the admitted felon, prepares to take center stage as a key prosecution witness in the criminal trial of Gov. Jim Guy Tucker, two former employees have broken silence to blast the former municipal judge.

Lynne Ballew, who held a number of jobs in Hale's court for four years until leaving for another job in 1990, and another employee, who agreed to be interviewed on condition of anonymity, were interviewed recently by the *Times*.

They describe Hale as a paranoid, verbally abusive and self-centered judge. They know him as a boss who once reacted to a bomb threat by rushing out of the building and later--as an afterthought--notifying his staff of the threat by phone.

Their memories of Hale flesh out the image of a deeply flawed witness whose credibility will be a difficult sell. His felony plea bargain is the most significant hurdle. But his business record is littered with disasters, including his small business loan agency. The anonymous employee, who was fired under what she says were questionable circumstances after a decade of working for Hale, alleges that his actions went beyond the merely offensive. She contends he routinely dismissed charges in his court as a favor to friends and acquaintances.

"On a lot of speeding cases he would call and say 'just dismiss that.' Sometimes it was a friend of his, and sometimes he wouldn't give me a reason."

Once, it backfired in public. "A lot of times in open court I would give reports on whether a person complied with probation terms. There was one time when he asked me to give a report on someone, and had told me earlier to dismiss the case because it was a friend of his. So I was trying to explain that to him in court without actually saying it out loud, when he had a fit and started screaming and yelling at me."

Another time, both women say, a scandal over Hale's extrajudicial activity was averted by luck.

About five years ago, Dr. Jon Dodson of Forest Park Medical Clinic in Little Rock filed a case in Hale's small claims court. When the defendant didn't show up for the hearing, the women say, judgment went by default to Dodson, and the paperwork was finalized. But a few days later, Hale allegedly told small claims supervisor Catherine Butler that she was wrong--judgment had not gone to Forest Park Medical Clinic at all.

Soon afterward, Dodson filed a complaint against Hale with the state Supreme Court's Judicial Discipline and Disability Commission. He claimed that the judge secretly reversed his decision after having a private meeting with Woodson Wall the attorney for the defendant.

Hale employees, including Ballew, gave depositions supporting Dodson to the commission's investigators. Most employees disliked Hale, said Ballew and Jon because he had embarrassed them in court or treated them with suspicion.

Hale counterattacked. Tommy Goodwin, former commander of the Arkansas State Police, says Hale called him in 1991 and asked him to investigate Butler for "fixing" parking tickets issued at the state Capitol.

Shortly afterward, says Goodwin, Capt. John Chambers, Goodwin's administrative assistant and designated press spokesman, went to the court and started poking through files.

None of the employees knew what Chambers was looking for. "It was really hush-hush," says Ballew. And to this day, the State Police say they have no record of any investigation. Goodwin, who retired from the state police, says he didn't take the case over to the criminal investigative division because parking tickets seem like small potatoes, "and John probably had more time on his hands than anyone else."

Since Butler apparently was the only person with direct knowledge of Hale's reversal on the Dodson judgment, she was set to be a key witness in the judicial commission hearing on Aug. 16, 1991. Hale kept the pressure on her.

It has been reported that he called a deputy prosecuting attorney the day before a disciplinary hearing to take an oral statement on Butler from state police investigator Danny Harkins. Usually, the prosecutor's office spends several weeks reviewing a written case file. In this case, Butler was arrested the same day for felony tampering with evidence in connection with the parking tickets.

Butler's credibility didn't turn out to be an issue. Hale was saved from disciplinary action the next day when the complaint was dismissed because of a technicality: Hale hadn't been notified of the complaint within the specified time frame.

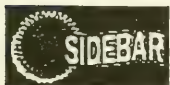
The case against Butler was filed in municipal court, where it was tossed out by special judge Rick Holiman for lack of probable cause. Ironically, Butler now works for the judicial discipline commission. She declined to discuss Hale with ~~the~~ Arkansas Times. Once he was safe from disciplinary action, Hale moved against ~~the~~ employees.

"The day it was over with," Ballew said. "Hale was escorted from the municipal court by a sheriff's deputy." Then, she says, he went to State Police headquarters and complained that a group of his current and former court employees, including Ballew, were plotting to kill him. By that time, Ballew was working for the drug task force in Pulaski County. "A trooper called me one day and said he needed to talk to me," said the anonymous former employee, who was also working elsewhere. "When he told me what it was about, I just died laughing. He said it was overheard when we were out one night celebrating one of my girlfriend's birthday at Bobbisoix. I told the trooper that if (Hale) died I wouldn't cry, and if that's threatening to kill him, so be it."

Investigator Danny Harkins again made a few informal inquiries about Hale's accusation, but clearly, the women say, he didn't take Hale seriously. And again.

State Police say they have no record of any such investigation. Harkins could not be reached for comment.

Hale has been in hiding for two years since he agreed to testify against Tucker and pleaded guilty to federal fraud charges. The Tucker trial begins March 4, and Hale's sentencing is scheduled for March 25. Efforts to reach him for comment on this article through the Whitewater prosecutor's office were unsuccessful.



David Hale's controversies on the bench included a thing two former employees call "dial-a-judge."

Shortly after the Pulaski County Municipal Court was moved from the county courthouse to a new facility on Roosevelt Road in the mid '80s, they say, Hale simply stopped coming to court several times a month--often on Fridays.

(The new court facility, by the way, was built at Hale's urging with revenue bonds that Hale insisted would be repaid with increased court revenue. The revenues didn't materialize and county general funds had to be used to pay for the building.)

Defense lawyers, defendants and prosecutors would show up for plea-and-arraignment hearings to find no one on the bench. Instead, the two sides were asked to strike a plea agreement and pass it on to Bobby Jones, the court administrator, who would get on the phone to Hale. From an unknown location, Hale would pronounce judgment. "He did no sentencing to speak of--he didn't even hear their stories," said his former employee, Lynn Ballew.

Curiously, no one seems to have objected to Hale's court-by-phone, and the practice continued for several years.

Hale grew increasingly paranoid about everything from assassins to viruses. If his former employees didn't take these fears seriously, Whitewater Prosecutor Kenneth Starr apparently does. Alleged threats on Hale have been cited to justify the government's \$57,000 in payments to hide Hale away at taxpayer expense.

As judge, Hale became a laughingstock when he had a bullet-proof screen installed in front of the bench in his courtroom (It protected only Hale, not the clerks who worked next to him on court days.) And he put in a metal detector at the door leading into the courtroom. "We're talking municipal court," says a former employee who did not want to be identified. "We don't do felonies."

"He was also real paranoid about people who had colds," she said. "You had to stay away from him. He would ask us if it was catching or contagious, and then he would back away if you said it was."

Ballew was prompted to speak out by her anger that Hale seems headed for lenient treatment in return for testimony against others.

"I have a real hard time with this special prosecutor basing everything on this one man," says Ballew. "Nobody has said anything about his character. He humiliated me in front of a courtroom of people--stood there and chewed me out. He'd scream at you, 'CAN YOU NOT HEAR ME? DO YOU NOT KNOW WHAT I'M TALKING ABOUT?'" He would cut people off. To mothers he would say things like 'you must not love your kids or you wouldn't let them ride motorcycles.'

"I hate him," Ballew says. "He is a creep. He deserves everything he gets, but it's obvious that he is going to get away with it."



HOW TO... • GAME • COMICS • BOOKS • MOVIE LISTINGS • RECENT STORIES • E.M.

1 would do it.

2 CNN: How come?

3 HALE: Well, that's just their -- they were friends,
4 and they were people in politics, in high
5 positions, and that would be the thing that I
6 would do.

7 (WHEREUPON, off the record for outside
8 noise.)

9 CNN: So, tell me a little bit more about later in
10 the fall of 1985, the early part of the winter
11 1985.

12 HALE: All right. During --

13 CNN: Any more conversations between you and Jim
14 McDougal?

15 HALE: Yes. We were continuously communicating almost
16 on an everyday, or every few days, trying to
17 get these things done, along with Jim Guy, Jim
18 Guy was working on one, and the different
19 aspects. And then, during the holiday seasons
20 of 1985, I was out at the state capitol and I
21 was on the east side waiting on a ride and I
22 was standing inside, it was kind of cool
23 outside, and the Governor came down and he came
24 down and was going out, his car was parked
25 right outside there, and he came down and he

1 saw me, and he just came over, shook hands, and
2 visited a minute, and he asked me if I was
3 going to be able to help he and Jim out, you
4 know. And I said, "We are working on it,"
5 something to that effect, "Are you going to be
6 able to help us out, help Jim and I out," or,
7 "help Jim and me?" I can't tell you the exact,
8 but -- and I said, "We are working on it." I
9 knew what he was talking about, because Jim had
10 earlier -- and one of these requests was a
11 request for \$150,000.00 for financing that
12 related -- that was for he and Bill Clinton.

13 CNN: Okay. Let's go back to that before we talk
14 about meeting the Governor in the State House.
15 When did Jim McDougal, to the best of your
16 recollection, when did he mention this first
17 money that you understood would go to McDougal
18 and Clinton?

19 HALE: It wasn't too long after the meeting -- that we
20 had the first meeting, within a matter of
21 weeks.

22 CNN: First meeting with Jim Guy Tucker?

23 HALE: Yes, sir.

24 CNN: Okay. Within a matter of weeks, what, he
25 talked to you and said what?

1 CNN: Okay. Continue.

2 HALE: So, we continued to close these financings that
3 these people had requested, and then around
4 February of 1986, I received a call -- Jim, at
5 that time, had moved his office from S&L out to
6 one of his projects called Castle Grande
7 located on 145th Street here in Little Rock.

8 CNN: This is, in fact, where you had met with him
9 and Jim Guy originally; is that right?

10 HALE: No, we had not met at their office out there.
11 We had --

12 CNN: You had gone out there to look at the property;
13 is that right?

14 HALE: Yeah, we had gone out, and this was some of the
15 property out there. This was their office out
16 there. And when I got there, they were both
17 there.

18 CNN: Who was there? I'm sorry.

19 HALE: Jim McDougal and Governor Clinton. And when I
20 walked in, they were, I can't remember, they
21 were talking about Frank White and talking
22 about raising funds, campaign funds, and then
23 Jim said that -- something to the effect, "We
24 need to get on and get through with our
25 business."

1 At that point, we started talking about the
2 financing for \$150,000.00. Jim had made the
3 statement that they were going to put it in
4 Susan McDougal's advertising company because
5 she would more qualify under the SBIC regs.
6 CNN: Tell me about that. What would she qualify?
7 HALE: Well, she would be female and be more likely to
8 qualify than either Jim McDougal or Bill
9 Clinton.
10 CNN: Did you believe the money was going to Susan
11 McDougal, and if not, where did you think it
12 was going?
13 HALE: I thought it was going, you know, that it was
14 going for something that involved Bill Clinton
15 and Jim McDougal.
16 CNN: Did you think it was going to Susan McDougal?
17 HALE: The loan would be made to Susan McDougal, but
18 the money would be going to something that Bill
19 Clinton and Jim McDougal had.
20 CNN: They were putting Susan McDougal forward just
21 as a way to get the loan?
22 HALE: As a nominee -- as a nominee lender.
23 CNN: Well, tell me about that..
24 HALE: Well, at the time -- what do you mean, tell you
25 about that?

1 CNN: Well, I mean, the idea is that it was all sort
2 of a secret, right, I mean, that you were
3 making this loan officially to Susan McDougal,
4 but you didn't for a moment think that the
5 money was really going to her?

6 HALE: No, sir.

7 CNN: Well, that's what I want you to expand upon.

8 HALE: Well, that's just about it. I knew that, you
9 know, that I had never met with Susan McDougal,
10 and Jim had never mentioned her name when he
11 was requesting this assistance. And to me, the
12 loan was going to be made in her name but it
13 would be for the benefit of something that Jim
14 and Bill Clinton had. I did not know what that
15 was.

16 And thus, you know, we talked about that a
17 minute, we talked about -- one thing that the
18 Governor did state was that his name could not
19 show up in the documents. And when he said
20 that, Jim said that that had already been taken
21 care of, that his name wouldn't show up
22 anywhere.

23 CNN: In fact, Susan McDougal's name was the only one
24 on the documents, although Jim was on as the --

25 HALE: He was a guarantor.

1 CNN: Okay.

2 HALE: Then during the discussion, we were discussing
3 about, you know, the security for the loan, or
4 what needed to be done to satisfy the
5 regulators and this sort of thing, and the
6 Governor said that they could give me a
7 security interest in some land in Marion
8 County.

9 And Jim then said that he and Susan would
10 guarantee the loan and they could put up their
11 financial statements, along with a financial
12 statement on Madison Savings & Loan which would
13 be sufficient to secure the loan.

14 And I mentioned to them that Jim had -- was
15 agreeing to finance some property that I had
16 that I was selling, because one of the things
17 this was doing, this was depleting all the cash
18 that I had in my SBIC. And at that time I
19 asked him -- you know, I said something to the
20 effect that, you know, "You are taking all my
21 money. When is the closing going to be made on
22 the sale of my property?" And he said, you
23 know, "We will get that done." Now --

24 CNN: This is still that same meeting with Bill
25 Clinton?

DAVID HALE INTERVIEW NBC (1 of 4)

1 NBC: Okay.

2 HALE: And as soon as that passed, they would pay the
3 money back.

4 NBC: Shortly after you wrote this check --

5 HALE: Yes, sir.

6 NBC: -- the \$300,000.00 check that Bill Clinton and
7 the others wanted you to make --

8 HALE: Yes, sir.

9 NBC: -- did you have another meeting with then
10 Governor Clinton?

11 HALE: Yeah. It was some weeks past that, I saw the
12 Governor at a mall here in Little Rock, in
13 University Mall. I was there --

14 NBC: Governor Clinton?

15 HALE: Yes, sir.

16 NBC: At a shopping mall?

17 HALE: Yes, sir.

18 NBC: Just ran into him?

19 HALE: Yes, sir. And actually, he was across the --
20 kind of across the aisle there, and he came
21 over to me and he said, "Have you heard what
22 that blankety blank Susan has done?" And I
23 was -- I did not know anything about their
24 business and everything, and I told him, no, I
25 hadn't. And I did not know anything about

1 their business and their business operations.
2 NBC: So, he asked you that question?
3 HALE: Yes, sir.
4 NBC: Blankety blank, expletive, expletive?
5 HALE: Right.
6 NBC: And he was referring to Susan McDougal?
7 HALE: Yes, sir.
8 NBC: When you said you didn't know anything about
9 it, did he say anything further?
10 HALE: No, no, we didn't go into it. I told him I
11 didn't know anything about their business and
12 that wasn't none of my business.
13 NBC: But this was partly in reference back to the
14 \$300,000.00 check?
15 HALE: I would assume that it was. You know, I don't
16 know, I cannot tell you that that's what he was
17 referring to, whether it was or not.
18 NBC: I see. So, just to summarize --
19 HALE: Yes, sir.
20 NBC: -- sometime in the fall of 1985 --
21 HALE: Yes, sir.
22 NBC: -- you are asked to help out some political
23 friends?
24 HALE: That's right.
25 NBC: Make some loans?

Bith mcd / BC part - part 1 -

It was a natural thing, - my name could
show up anywhere on the thing -

We could give you some security for the
loan - Maria Co. properties no possible
security -

very nervous - said this had to get done

We got to clean it up - all I know is
they had a problem - but problem -
nothing to do w/ the account -

We could offer some security if you need
something for your file - all I can
remember is that something -

Understand that BC's name couldn't show up -
MCD - his also - by then knew of that

BL011721

We were telling about losing some money
150,000 because of problem. Maria was saying -
I think I can help you -

66 He sd we did offer security
for files. We have land
Held understood as land in Man
All I did remember was White with

66 Understood BC name didn't be used

Clean from mty - end Susan McD
\$150K -

b/c. of probs Madison had
for talking care of smthg else

- covered tracks but had to
cover them too

- nothing sd of what Susan
WB do = \$

All making sure BC name not used

Might be discovered by regulators

DAVID HALE INTERVIEW NBC (1 of 4)

21

1 them as requested by Jim McDougal.

2 NBC: How did you take that? I mean, Governor Tucker
3 talked with you, Mr. McDougal talked to you,
4 Governor Clinton -- then Governor Clinton
5 talked with you?

6 HALE: Yes, sir.

7 NBC: Asking your help?

8 HALE: Yes, sir.

9 NBC: Asking that loans or funds under your power be
10 made?

11 HALE: Yes, sir.

12 NBC: Were they asking a political favor, a personal
13 favor?

14 HALE: Yes, sir. These people -- you know, we had all
15 been friends, and they had a problem and I was
16 simply helping them out.

17 NBC: So, you were old friends?

18 HALE: Yes, sir.

19 NBC: David Hale?

20 HALE: Yes, sir.

21 NBC: Bill Clinton?

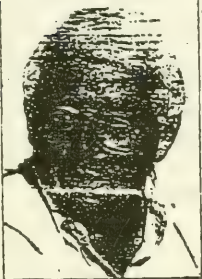
22 HALE: Yes, sir.

23 NBC: Jim McDougal?

24 HALE: Yes, sir.

25 NBC: Jim Guy Tucker?

1 HALE: Yes, sir.
2 NBC: You are old friends?
3 HALE: Yes, sir.
4 NBC: Is it fair to say that you were kind of like
5 back room buddies in Arkansas Democratic
6 politics?
7 HALE: Yes. I have been active all my life in
8 Democratic politics here in Arkansas, since I
9 was 18 -- actually, since I was 17.
10 NBC: So, by 1985, 1986, you were close political
11 friends --
12 HALE: Yes, sir.
13 NBC: -- with Bill Clinton?
14 HALE: Yes, sir.
15 NBC: And Jim Guy Tucker?
16 HALE: Yes, sir.
17 NBC: Jim McDougal?
18 HALE: Yes, sir.
19 NBC: And they were asking you for a favor?
20 HALE: Yes, sir.
21 NBC: What did that favor involve?
22 HALE: They had some problems and they needed the loan
23 of some money, and that's what I did.
24 NBC: So, Bill Clinton and the others --
25 HALE: Yes, sir.

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Democrat Gazette 5/30/86

Colin Cameron Capp

Jury saved hardest for last

Tucker counts took up two days

BY JULIAN E. BARNES
Cameron-Gazette Staff Writer

Whitewater jurors spent the last day of deliberations wrestling with the conspiracy charge against Gov. Jim Guy Tucker before deciding to convict the governor, two jurors said Wednesday.

Colin Cameron Capp, 51, said he went into the jury room with reasonable doubt that Tucker had conspired to commit fraud. But during the last day of deliberation, other jurors convinced him that documents introduced as evidence proved Tucker's guilt.

"We found him guilty of conspiracy because he had to know because he drew up the paperwork," said Capp of Little Rock. "He was a lawyer for Hale; he was a lawyer for Madison."

Juror Rose Johnson Hayes, 77, of Little Rock said the jury began considering the charges against Tucker on the sixth of eight days of deliberations. Johnson said she found the case against Tucker the most complex — although all the conspiracy charges were difficult to decide.

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On the inside

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SIGNATURES new minutes of talks could bring more than 100 negotiators for. Page 8A

LAWYERS for Tucker, Susan McDougal won't second-guess decision not to call them as witnesses. Page 10A

STODOLIA still plans to prosecute Hale for other violations. Page 11A

Jury

Continued from Page 1A

Like many jurors, Hayes said she did not think Hale was a credible witness. Nor did she feel R.D. Randolph, a business associate of Tucker's, was credible. Hayes said Randolph's memory was faulty. Hayes said the Whitewater trial wasn't about witnesses.

"It was a document trial," Hayes said.

Chief prosecution witness David Hale and co-defendant James McDougal were the real "kingpins" of the conspiracy to defraud McDougal's Madison Guaranty Savings and Loan Association and Hale's Capital Management Services Inc., Capp said.

"I think Jim Guy was really an innocent pawn up to a point," Capp said. He said Tucker had to know that it was wrong to say on a loan application to Capital Management that he'd use the money to paint a water tower when he actually intended to use it for a utility purchase.

"I think (that) may have been what did him in," Capp said.

On Tuesday, the jury convicted Tucker of two counts. McDougal on 18 counts and McDougal's former wife, Susan, of four counts. Tucker and James McDougal were convicted of conspiring in the mid-1980s

to defraud the government and two financial institutions. Susan McDougal was convicted of four counts related to a \$500,000 loan that was part of the conspiracy.

Capp said the paper trail presented by the independent counsel convinced him that Tucker was guilty in the fraud charges related to Castle Sewer and Water Corp. Hayes agreed that the documented evidence was the strongest in the Castle Sewer counts.

Capp said that although Dwight Marlin signed the \$150,000 loan, it was Jim Guy Tucker who drew up the paperwork.

Of the jurors who have spoken out after the trial, Capp has expressed the most contempt for Hale, calling him a liar and accusing him of perjurying himself on the witness stand.

"I decided I wasn't going to take away anyone's freedom on the testimony of David Hale," Capp said. "He's one of the greatest con men whom I've ever seen."

While the jury did not hold Tucker's silence against him, Capp said he would have liked to have heard the governor testify.

"I think it would have helped, but then I am not a lawyer and how do you second-guess the defense strategy. And besides, who do you put on behind the president of the United States," he said.

Another juror who asked to re-

main anonymous said Tucker should have testified.

"If it was me and I didn't do anything wrong I'd want to be the first one to get up there and tell it," the juror said. "I'd like to hear what he had to say but that's his right."

That same juror said James McDougal's testimony provided little help for the defense.

"It might not have helped his case but I don't think he hurt it," the juror said of James McDougal.

The jury spent its first days developing a timeline then moved through the individual charges one by one after they got copies of the indictment from U.S. District Judge George Howard Jr. The jury began deliberating on May 16 and ended their deliberations Tuesday.

By last Friday, Capp said jurors were physically and emotionally drained. The jury had begun a wearying discussion of the conspiracy charges against Tucker, one of the charges on which he'd eventually be convicted.

Juror Rita Gayle Briggs, 41, of North Little Rock, shed tears when she came into the courtroom Friday.

"That was just the stress from being a wife and a mother and a teacher and everything," Briggs said.

Briggs said she took notes of

what the jurors did during sessions but she declined to reveal details from her notes.

Capp said he found reasonable doubt that Tucker committed fraud in the loan to Southloop construction because there were not enough documents introduced as evidence to support it.

"Everyone thought he would go down on Southloop. But it was not Southloop," Capp said. "We looked long and hard at Southloop and we couldn't really find — documentation and evidence; so, therefore, we acquitted him."

Capp said he was disappointed by the news that Tucker had resigned after the verdict.

"Personally I think he's an excellent governor. I was hurt he had to step down. I wish that hadn't happened but in all good faith I took an oath to do the very best I could do and as a whole we did."

With the resignation and facing a maximum of 10 years in prison and \$500,000 in fines, Tucker will suffer more than the other White water conspirators, Capp said. He said that was unfair, especially given the sentence given to Hale.

"I think it was an absolute travesty that Hale got sentenced to 24 months," Capp said. "And there were other conspirators as well who got their hands slapped but that was it."

DAVID HALE INTERVIEW CNN 11/24/93

1 CNN: What happened to that money?
2 HALE: I don't know what happened to that money other
3 than that we do know that \$110,000.00 of that
4 money went into Whitewater development, which
5 was owned by the McDougals and the Clintons,
6 and then in turn Whitewater development used
7 the \$110,000.00 for a down payment to
8 International Paper on a \$550,000.00 piece of
9 property.
10 CNN: Let me change the subject, just finish up here.
11 Did you feel that Bill Clinton pressured you to
12 give this money? I want you to characterize
13 it.
14 HALE: I don't consider it pressuring. It is just
15 like when the Governor asks for your help, you
16 just do it.
17 CNN: Is that why you made the loan?
18 HALE: Yes, for he and Jim, yes.
19 CNN: Did you know that loan was not going to be
20 going according strictly to the letter of the
21 SBIC laws?
22 HALE: Yes, sir.
23 CNN: So, why did you do it?
24 HALE: According to the SBIC laws?
25 CNN: Per the regulations, it would go to someone

MEMORANDUM

January 13, 1986

State Director of Sanitation: William Teer

Saline County Sanitarian: Lex Dobbins

Pulaski County Sanitarian: Lane Townsend

White County Sanitarian: Tom Jenkins

DKSN013423

- 1) Action requested immediately: Written approval of Brittany Point Subdivision in Pulaski County.
- 2) Approval of Eden Park Subdivision in White County. *Jan 16 =*
- 3) Strict written instruction from Teer for county sanitarians to not discuss our subdivisions with our customers.

JW/ee

OFFICE OF THE GOVERNOR

MEMORANDUM

Per JPS

To : Governor Date: Jan. 30, 1986

From : J. Choate

Subject: Jim McDougal

CR asked that I call McDougal because of some complaints he had re the Health Dpt. He told me to look for the memo he gave you that had all the complaints outlined and that I could find that memo in the coat pocket of the jacket you had on when he saw you on Sat. morn. I tried to say in a nice way that I was not in the habit of asking you what you wore when we were not together and that I did not have access to your closet. He insisted that I find that coat and I would have the memo, but if, by chance, I couldn't find it and was unable to talk to you about the problems, to call him back. I called him back on Tuesday of this week. He was out, but his secretary said that he had spoken to you that very day long distance so she felt like the issue was resolved.

I did speak to Jerry Hill at the Health Dpt and they have copious letters from McDougal and would be glad to respond to any and all of the complaints outlined in the memo that is in the coat pocket.

Do I need to pursue? Advise, please.

DKSN013418

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May 23, 1996

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HONG KONG

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OUR FILE NUMBER

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Michael Chertoff, Esq.
Special Counsel
Senate Special Committee
to Investigate Whitewater
Development Corporation and
Related Matters
Washington, D.C. 20510-6075

Richard Ben-Veniste, Esq.
Minority Special Counsel
Senate Special Committee
to Investigate Whitewater
Development Corporation and
Related Matters
Washington, D.C. 20510-6075

Re: *David L. Hale*

Gentlemen:

On May 17, 1996, I received a letter from Chief Counsel Robert Giuffra requesting that Mr. Hale notify the Committee on or before May 23, 1996 if he did not intend to appear for his deposition on May 24 and for testimony at a public hearing on June 4, 1996.

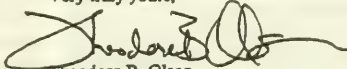
This is to inform you that based on the rights guaranteed to him by the Fifth Amendment to the Constitution of the United States, Mr. Hale respectfully declines to appear before your Committee for a deposition or public testimony. As you may know, Mr. Hale has been explicitly threatened, in writing, with prosecution in Arkansas by Arkansas state authorities. There are ample bases for believing that such threats and any such prosecution would constitute retribution against Mr. Hale for his cooperation with the Independent Counsel. He has been advised that any testimony that he may give before the Special Committee may be used against him by Arkansas

GIBSON, DUNN & CRUTCHER LLP

Michael Chertoff, Esq.
Richard Ben-Veniste, Esq.
May 23, 1996
Page 2

prosecutors in any such future proceeding in Arkansas. Under the circumstances, Mr. Hale feels that he has no choice but to avail himself to the protection afforded to him by the Constitution.

Very truly yours,



Theodore B. Olson

TBO/hiv

cc: Robert J. Giuffra,
Chief Counsel
Committee on Banking, Housing and Urban Affairs

timony under all circumstances, we find those cases troubling. We are not unsympathetic, nevertheless, to the concerns voiced by the First, Second and Eleventh Circuits and by the District Court here. In the present appeal, the record is extensive and the District Court's findings are thorough as to precautions taken by the IC to prevent untoward exposure or use by his staff. The record is clear and the findings are not clearly erroneous. Without significant exposure, the IC could not have made significant nonevidentiary use, permissible or impermissible. Thus, even assuming without deciding that a prosecutor cannot make nonevidentiary use of immunized testimony, in the case before us the IC did not do so. We do not reach the precise question, therefore, of the permissible quantum of nonevidentiary use by prosecutors, or indeed whether such use is permissible at all. Our concern is the use of immunized testimony by witnesses before the grand jury and at trial.

[8] We cannot agree with the District Court that the use of immunized testimony to refresh the memories of witnesses is a nonevidentiary matter and that therefore refreshment should not be subject to a *Kastigar* hearing because "[n]o court has ever so required, nor did *Kastigar* suggest anything of the kind." *Kastigar Memo*, 698 F.Supp. at 314. In our view, the use of immunized testimony by witnesses to refresh their memories, or otherwise to focus their thoughts, organize their testimony, or alter their prior or contemporaneous statements, constitutes *indirect evidentiary* not *nonevidentiary* use. This observation also applies to witnesses who studied, reviewed, or were exposed to the immunized testimony in order to prepare themselves or others as witnesses.

Strictly speaking, the term *direct evidentiary* use may describe only attempts by the prosecutors to offer the immunized testimony directly to the grand jury or trial jury, as by offering the testimony as an exhibit. But the testimony of other witnesses is also *evidence* that is to be considered by the grand jury or the trial jury. When the government puts on witnesses

who refresh, supplement, or modify that evidence with compelled testimony, the government uses that testimony to indict and convict. The fact that the government violates the Fifth Amendment in a circuitous or haphazard fashion is cold comfort to the citizen who has been forced to incriminate himself by threat of imprisonment for contempt. The stern language of *Kastigar* does not become lenient because the compelled testimony is used to form and alter evidence in oblique ways exclusively, or at a slight distance from the chair of the immunized witness. Such a looming constitutional infirmity cannot be dismissed as merely nonevidentiary. This type of use by witnesses is not only evidentiary in any meaningful sense of the term; it is at the core of the criminal proceeding.

In summary, the use of immunized testimony—before the grand jury or at trial—to augment or refresh recollection is an evidentiary use and must be dealt with as such.

2. Refreshment

Both the trial and the grand jury proceedings involved "a considerable number" of witnesses who had "their memories refreshed by the immunized testimony," *Kastigar Memo*, 698 F.Supp. at 313, a use of compelled testimony that the District Court treated as nonevidentiary. *Id.* The District Court stated that "[t]here is no way a trier of fact can determine whether the memories of these witnesses would be substantially different if it had not been stimulated by a bit of the immunized testimony itself" and that "there is no way of determining, except possibly by a trial before the trial, whether or not any defendant was placed in a substantially worse position by the possible refreshment of a witness' memory through such exposure." *Id.* at 314. The District Court found that such taint occurs in the "natural course of events" because "[m]emory is a mysterious thing that can be stirred by a shaggy dog or a broken promise." *Id.* at 313.

[9,10] This observation, while likely true, is not dispositive of the searching inquiry *Kastigar* requires. The fact that a

U.S. v. NORTH

Cite as 910 F.2d 843 (D.C. Cir. 1990)

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sizable number of grand jury witnesses, trial witnesses, and their aides apparently immersed themselves in North's immunized testimony leads us to doubt whether what is in question here is simply "stimulation" of memory by "a bit" of compelled testimony. Whether the government's use of compelled testimony occurs in the natural course of events or results from an unprecedented aberration is irrelevant to a citizen's Fifth Amendment right. *Kastigar* does not prohibit simply "a whole lot of use," or "excessive use," or "primary use" of compelled testimony. It prohibits "any use," direct or indirect. From a prosecutor's standpoint, an unhappy byproduct of the Fifth Amendment is that *Kastigar* may very well require a trial within a trial (or a trial before, during, or after the trial) if such a proceeding is necessary for the court to determine whether or not the government has in any fashion used compelled testimony to indict or convict a defendant.

[11] We readily understand how court and counsel might sigh prior to such an undertaking. Such a *Kastigar* proceeding could consume substantial amounts of time, personnel, and money, only to lead to the conclusion that a defendant—perhaps a guilty defendant—cannot be prosecuted. Yet the very purpose of the Fifth Amendment under these circumstances is to prevent the prosecutor from transmogrifying into the inquisitor, complete with that officer's most pernicious tool—the power of the state to force a person to incriminate himself. As between the clear constitutional command and the convenience of the government, our duty is to enforce the former and discount the latter.

[12] The District Court ruled that "[i]f testimony remains truthful the refreshment itself is not an evidentiary use." *Id.* at 314. But *Kastigar* addresses "use," not "truth." If the government uses immunized testimony to refresh the recollection of a witness (or to sharpen his memory or focus his thought) when the witness testifies before a grand jury considering the indictment of a citizen for acts as to which the citizen was forced to testify, then the

government clearly has used the immunized testimony. Even if "truthfulness" were the focus of the *Kastigar* inquiry, the present record does not disclose the basis for the determination that the testimony of any witness was "truthful," nor does it indicate how we might review such a determination.

The IC attempts to meet North's refreshment argument by relying on *United States v. Apfelbaum*, 445 U.S. 115, 124-27, 100 S.Ct. 948, 953-55, 63 L.Ed.2d 250 (1980), for the proposition that *Kastigar* "prohibits use [of immunized testimony] by the prosecution, not by others." Brief for Appellee at 24. The IC misreads *Apfelbaum*, which is concerned with how immunized testimony may or may not be used rather than with who may or may not use it. In *Apfelbaum*, the Supreme Court stated that it had never held that the Fifth Amendment precludes all use of immunized testimony because "[s]uch a requirement would be inconsistent with the principle that the privilege does not extend to consequences of a *noncriminal* nature, such as threats of liability in civil suits, disgrace in the community, or loss of employment." *Apfelbaum*, 445 U.S. at 125, 100 S.Ct. at 954 (emphasis supplied). North does not contend that the government violated his Fifth Amendment right because he received bad press as a result of his immunized testimony, or that he has been unable to find employment. Rather, he protests that the government used his immunized testimony to secure his indictment and subsequent conviction as a federal felon. Because North appeals a judgment that apparently violates his Fifth Amendment privilege by the imposition of criminal sanctions, we find *Apfelbaum* inapplicable to this case.

The IC further relies on *Monroe v. United States*, 234 F.2d 49, 56-57 (D.C. Cir.), cert. denied, 352 U.S. 873, 77 S.Ct. 94, 1 L.Ed.2d 76 (1956), for the proposition that recollection may be refreshed with inadmissible evidence even when the government violated the Fourth and Fifth Amendments to obtain the evidence. In *Monroe*, this Court allowed an undercover police officer

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June 6, 1996

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HAND DELIVERY

Senator Alfonse M. D'Amato, Chairman
 Senator Paul Sarbanes, Ranking Member
 Special Committee to Investigate Whitewater
 Development Corporation and Related Matters
 United States Senate
 Washington, DC 20510-6075

Dear Senator D'Amato and Senator Sarbanes:

I have accepted service of subpoenas from the Special Committee directing our client, David Hale, to appear for deposition on June 7, 1996 and testimony on June 12, 1996.

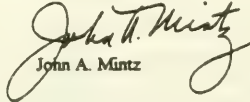
I have advised the Committee orally and now confirm in writing that Mr. Hale will claim the protection of his Constitutional privilege under the Fifth Amendment to the Constitution of the United States and respectfully decline to testify at deposition and at a public hearing if he is compelled to appear in response to the subpoenas.

In the absence of a court order to testify and a grant of immunity as provided by Federal law, any testimony by Mr. Hale regarding any matters before the Special Committee may be used against him in some fashion in connection with an announced criminal prosecution of Mr. Hale in Arkansas and any other state or federal prosecution.

Senator Alfonse M. D'Amato
Senator Paul Sarbanes
June 6, 1996
Page 2

I request that the Special Committee afford Mr. Hale the courtesy that other potential witnesses before Congressional committees are accorded routinely of recognizing his intention of claiming his Constitutional privilege and excuse him from the embarrassment and adverse public inferences that will be associated with having to appear in person for the sole purpose of stating his privilege claim.

Very truly yours,



John A. Mintz

JAM/jtf

cc: David Hale

WLS61500.011/1+

MEMORANDUM

TO: Michael Chertoff and Bob Guiffra
FROM: Richard Ben-Veniste and Lance Cole
RE: January Deposition Schedule
DATE: December 27, 1995

Last Tuesday Michael indicated that you would be providing us with a revised witness list and deposition schedule. We are awaiting the list and schedule.

We also note that among the many subpoenas that were sent out last week there was no subpoena for David Hale. Do you still intend to call David Hale as a witness? If so, we should prepare subpoenas compelling the production of documents and his appearance for deposition.

We look forward to hearing from you.

MEMORANDUM

To: Michael Chertoff and Bob Giuffra
From: Richard Ben-Veniste, Neal Kravitz and Lance Cole
Re: David Hale Documents and Deposition Testimony
Date: January 3, 1996

Following our December 7, 1995 meeting in Chairman D'Amato's office with Jane Sherburne and David Kendall, the Chairman asked us to work with you to begin the process of having David Hale appear for a deposition. At that time we noted that this process would take some time if the Independent Counsel objected to Hale's providing testimony to the Committee (as his staff has indicated he will do). We have raised the Hale issue with you on several occasions since the December 7 meeting, but as yet you have not agreed to take any steps toward obtaining Hale's documents or testimony. We had expected that a document subpoena for Hale would be among the "Arkansas subpoenas" you prepared at the end of December, but it was not.

Yesterday we raised the Hale issue again with Bob and Alice Fisher. In a departure from what we had previously understood the Chairman's position to be, Bob told us yesterday that it now is an open issue whether the Majority will agree to subpoena Hale for a deposition in advance of public testimony, or even to subpoena Hale's documents.

We believe it is imperative that the Committee issue subpoenas to obtain Hale's documents and take his deposition. We also believe it would be inappropriate and an abuse of the Committee's process to have Hale appear as a hearing witness without first deposing him. Because any further delay may affect the Committee's ability to obtain documents and testimony from Hale, we suggest that the Committee promptly subpoena Hale's documents. In the cover letter to the document subpoena we should inform Hale's counsel that the Committee will be issuing a subpoena for Hale's deposition appearance later this month. The Independent Counsel should be copied on the letter to Hale's counsel so that he will be on notice that we intend to depose Hale in January.

A draft document subpoena for Hale is attached. Please look over this draft and let us know as soon as possible whether you will agree to proceed in this manner.

Attachment

ATTACHMENT A

All records, regardless of format, including, but not limited to, e-mail, electronic "dump files," memoranda, correspondence, notes, and records in any other medium, including drafts of any of the foregoing, within your possession, custody or control that reflect, refer or relate to the sources of funding and lending practices of Capital Management Services, Inc. ("CMS"), and its supervision and regulation by the Small Business Administration, including but not limited to:

- a. the \$50,000 loan made by CMS to County Cable, Inc. in or about 1985;
- b. the foreclosure in or about October 1985 by David Hale, or by any company owned, operated or controlled by David Hale, on a mortgage by Savers Federal Savings & Loan that Jim Guy Tucker had guaranteed for Dan Garner in or about 1984;
- c. any loans made by Madison Guaranty Savings & Loan Association ("Madison") to David Hale including, but not limited to, \$790,000 in loans in 1986 for:
 - (1) a fan import company (\$200,000);
 - (2) a commercial lot off Cantrell Road in Little Rock (\$290,000); and
 - (3) a farm in Yell County (\$300,000),and any records that document the use of the proceeds of such loans;
- d. the \$65,000 loan made by CMS to Steve Smith doing business as the Communications Company in or about February 1986;
- e. the \$150,000 loan made by CMS to Castle Sewer, Inc. in or about February 1986;
- f. the \$825,000 loan made by Madison to Dean Paul, Ltd. in or about March 1986, and any records that document the use of proceeds of that loan;
- g. the \$300,000 loan made by CMS to Susan McDougal, doing business as Master Marketing, in or about April 1986, including but not limited to any records that document the circumstances of the making of that loan;

- h. the assignment of Madison common stock to CMS by James and Susan McDougal in or about April 1987;
- i. the \$100,000 loan made by CMS to Southloop Construction Corporation in or about October 1987;
- j. the \$400,000 loan made by CMS to Cole Masonry in or about April 1991 ;
- k. any transaction involving Charles Matthews, Eugene Fitzhugh or David Hale relating to CMS, including but not limited to the transfer of \$800,000 from Prudential-Bache accounts to CMS in or about November 1988;
- l. any communication, contact or meeting involving Charles Matthews, Eugene Fitzhugh or David Hale relating to CMS;
- m. any sales of burial insurance or pre-paid funeral expense plans by David Hale;
- n. any letters, documents, or other records allegedly missing from the files of CMS after the seizure of those files by the Federal Bureau of Investigation in July 1993; and
- o. any interviews, meetings, or discussions, in person or by telephone, with Jeff Gerth of *The New York Times*, or any other reporter, relating to any of the matters in items (a) through (o) above.

MEMORANDUM

To: Michael Chertoff
From: Richard Ben-Veniste
Re: David Hale Subpoena
Date: February 14, 1996

Last week we provided Bob Giuffra and Doug Nappi a second copy of the draft subpoena to David Hale that we first gave them in early January. They have returned a revised draft that omits several categories of documents that clearly are within the scope of S.Res. 120 and would further our investigation. The first omitted category is comprised of documents relating to certain loans to Jim Guy Tucker's companies by CMS, which are "lending practices of [CMS]" as defined in the Resolution. The second category is comprised of documents relating to Hale's interviews with Jeff Gerth or other reporters. Since those interviews reportedly involved the same matters we are investigating, we should obtain any notes of the interviews. Finally, the revised draft Doug and Bob prepared omits our request for documents relating to Hale's sales of burial insurance or prepaid funeral expenses. This matter relates to the propriety of Paula Casey's refusal to accept a plea from Hale without a proffer and an opportunity to question Hale about his other illegal activities (the "pig in the poke" issue that Irv Nathan and others testified about). This category of documents may shed light on Hale's desire to avoid the requirements normally imposed upon a defendant in plea bargain negotiations and the propriety of the prosecutor's determination not to depart from standard Department of Justice procedures.

We have marked the subpoena attachment to add these categories of documents. The mark-up is attached. I strongly urge that we send this subpoena out today with a return date of Friday, February 23 (which is the same period of time that we have been giving other subpoena recipients).

Attachment

MEMORANDUM

TO: Michael Chertoff

FROM: Richard Ben-Veniste

RE: David Hale Testimony

DATE: February 22, 1996

Last Friday, February 16, the Committee prepared a document subpoena to David Hale in care of his counsel, Theodore Olson. The subpoena was served on Tuesday, February 20, and the return date for production of Hale's documents is next Tuesday, February 27.

As you know, for several months I have been urging the Majority to go forward with a document subpoena and deposition notice to Hale. Consistent with that position, I suggest that we now schedule Hale's deposition for the week of February 26. Since the fall of 1995 I have been reminding you that unless the Committee scheduled Hale's deposition promptly: (1) we would not know with certainty whether Hale would refuse to testify; and (2) even if Hale did not assert a privilege against testifying, unless we scheduled his testimony sufficiently in advance of the Tucker/McDougal trial we would run into logistical problems.

It has been my view, having in mind the Committee's stated objective, *inter alia*, of vindicating the reputations of persons unfairly accused of improper conduct relating to Whitewater, that we should subject Hale's allegations regarding the President to critical examination. Although Hale's allegations have been widely publicized by reason of his willingness to meet extensively with the press, thus far, to my knowledge, David Hale (as compared to an actor playing the role of David Hale in the Little Rock mock trial reportedly staged by the Independent Counsel) has never been subjected to cross-examination.

Consonant with the Committee's stated desire to proceed expeditiously with its inquiry irrespective of Independent Counsel Starr's express concerns (see the letter of October 2, 1995 to Kenneth W. Starr, Esq. from Chairman D'Amato and Ranking Member Sarbanes), I have continued to remind you of the need to schedule Hale's deposition as a prelude to his testimony in an open hearing. On December 7, 1995 Chairman D'Amato specifically asked me to work with you to schedule Hale's testimony. Thereafter, my requests to secure Hale's deposition were rebuffed. In recent weeks, you have advised me that Hale's scheduling was being handled directly by the Chairman, who has consulted with both Mr. Starr and Mr. Olson on this

subject. You have implied that Mr. Olson has communicated Hale's refusal to testify, but you have not been specific except to tell me that Olson had two Supreme Court arguments to prepare for. Michael, we both know that such an excuse would never be tolerated with respect to any other witness. Moreover, when I telephoned Mr. Olson to try to get his position directly, he told me he was unwilling to discuss the matter except with the Majority.

As you know, I fully support the proposition that the Committee should forego calling a witness who represents that he will rely on a constitutional privilege not to testify. It is quite another thing for the witness never to be obliged to state his position. Michael, let me be very direct here. I am concerned the argument will be advanced that because Hale's testimony has not been obtained the hearings should be extended.

The Minority's repeated (and well-documented) efforts to move the Committee forward on obtaining Hale's testimony demonstrate that the Committee has had adequate time to obtain that evidence if it had wished to do so. Were the Majority to argue now that not having obtained Hale's testimony is a reason to extend the hearings, it would be a distortion of the record of this investigation. I would be particularly disappointed if the Majority were to make that argument after I repeatedly have advised you of my concerns that Hale not be used as an excuse to extend the hearings.

Please call me as soon as possible after you have had an opportunity to consider this matter. We should require a decision immediately from Hale as to whether he will assert any privilege against testifying. If he is willing to testify we can schedule him before February 29.

If Hale is willing to testify, we may receive the assertion that it is now too close to the anticipated start of the Tucker/McDougal trial for him to testify before this Committee. We would then be obliged to decide, on a bipartisan basis, whether to demand his appearance before trial, or to forego calling Hale, recognizing that the substance of any testimony that he might give would be received (and tested) in the Tucker/McDougal trial. I want to emphasize that under any of the foregoing scenarios, it would be wrong to use Hale as an argument to extend the hearings.

ATTACHMENT A

All records, regardless of format, including, but not limited to, e-mail, electronic "dump files," memoranda, correspondence, notes and records in any other medium, including drafts of any of the foregoing, that reflect, refer or relate to:

(a) the sources of funding and lending practices of Capital Management Services, Inc. ("Capital Management"), and its supervision and regulation by the Small Business Administration (the "SBA"), including, but not limited to:

1. any communication, contact or meeting relating to Capital Management involving any person, other than your personal legal counsel or the Office of the Independent Counsel ("OIC"), including, but not limited to, William Jefferson Clinton, Hillary Rodham Clinton, any present or former employee of the White House, the SBA, the Rose Law Firm, Mitchell, Williams, Selig, Gates & Woodyard (the "Mitchell Law Firm"), James Blair, Webster Hubbell, William Kennedy, Bruce Lindsey, James Lyons, James McDougal, Susan McDougal, or Betsy Wright;

2. any transaction, communication, contact or meeting relating to Capital Management involving Charles Matthews or Eugene Fitzhugh;

3. the \$150,000 loan made by Capital Management to Castle Sewer & Water Corporation in or about February 1986;

4. the \$825,000 loan made by Madison Guaranty Savings & Loan Association or any affiliate, subsidiary or other entity owned or controlled by Madison Guaranty Savings & Loan (collectively, "Madison") in or about March 1986 and any records that document the use of the proceeds of that loan;

5. the \$300,000 loan made by Capital Management to Susan McDougal, doing business as Master Marketing, in or about April 1986, including, but not limited to, any records that document the circumstances of the making of that loan, and any alleged diversions of proceeds to Whitewater Development Corporation ("Whitewater"); or

6. any letters, documents, or other records allegedly missing from the files of Capital Management after the seizure of those files by the Federal Bureau of Investigation in July 1993; or

3. The
\$50,000
loan
made by
Capital
Management
to Count
Cable, in
in or
about
1985;

4. The foreclosure
in or about
1985 by David
Hale, or by a
company owned
operated or
controlled by

David Hale, on a
mortgage by Savers Federal
Savings & Loan that Jim Guy
Tucker had guaranteed for Dan
Garner in or about 1984;

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Jeff
Gerth
(including
meetings
or
interviews
attended
by your
counsel,
Randall
Coleman)
or any
other
reporter
or news
media
representative;

(c) 7. the assignment of Madison stock to CMS by James and Susan McDougal in or about April 1987.

(b) the operations, solvency, and regulation of Madison, including, but not limited to:

1. any communication, contact or meeting relating to Madison involving any person, other than your personal legal counsel or the OIC, including, but not limited to, William Jefferson Clinton, Hillary Rodham Clinton, any present or former employee of Madison, the White House, the Arkansas Governor's Office or the Mitchell Law Firm, James Blair, William Kennedy, Bruce Lindsey, James McDougal, Susan McDougal, Betsy Wright, Stephen Smith or Lisa Anspaugh;
2. the Rose Law Firm's representation of Madison;
3. Maple Creek Farms or any related entity;
4. Castle Grande Estates, Castle Sewer & Water Corporation or any related entity; or
5. Madison Marketing; or

(c) the activities, investments, and tax liability of Whitewater, and, as related to Whitewater, of its officers, directors, and shareholders; or

(d) the bond underwriting contracts between Arkansas Development Finance Authority and Lasater & Company.

(e) any sales of burial insurance or pre-paid funeral expense plans by David Hale;

1. Any loans made by Madison to David Hale or any company or business affiliated with David Hale, including, but not limited to the \$825,000 loan made by Madison to Dean Paul, Ltd. in March 1986;

Jeff Gorth
including
meetings
or
interviews
attended
by your
counsel,
Randell
Coleman)

or any
other
news
media
report
entity

MEMORANDUM

TO: Michael Chertoff
FROM: Richard Ben-Veniste
RE: Majority Staff Memorandum of February 23 Regarding David Hale
DATE: February 26, 1996

I was disappointed by your response to my memorandum of February 22.

Your memorandum of February 23 does not respond to the principal point of my February 22 memorandum: Why did you wait three months before even sending a document subpoena to Hale? The Chairman stated on November 28 that he intended to call Hale as a witness. On December 7, after our meeting with Kenneth Starr, the Chairman directed the staff to work together to prepare a subpoena to Hale. On December 22, 26, and 27, the Majority served 13 subpoenas on parties in Arkansas -- including James McDougal and Jim Guy Tucker -- but did not serve a subpoena on Hale. The Minority questioned the omission of Hale, then prepared a subpoena to Hale and provided it to the Majority on January 3. In our transmittal memorandum we noted that further delay would make it difficult to obtain Hale's testimony before February 29. Still you resisted sending Hale a subpoena.

In the meantime, the Majority engaged in discussions with Hale's new counsel. The Minority was excluded from those discussions. It appears that Hale and his counsel were granted considerations that have not been extended to any other witness. Your reference to avoiding "the unfortunate result" of Hale asserting a Fifth Amendment privilege is a complete non sequitur. We will not know what privileges Hale will assert, if any, until we depose him. Hale's plea agreement assures Hale that he will not be further prosecuted for any crimes related to Madison Guaranty Savings & Loan or Capital Management Services, Inc., and he is expected to testify about those matters at the McDougal/Tucker trial. Your refusal to pursue Hale's testimony because of a speculative concern that he might assert his Fifth Amendment privilege simply makes no sense and leads me to believe you have other reasons for not seeking Hale's testimony at this time.

You did not send Hale a subpoena until February 20. On February 22 Hale's counsel advised the Committee that all responsive documents are in the possession of the SBA and the Independent Counsel. Again, you appear to be giving Hale special treatment. You did not inquire whether Hale or his counsel maintained copies of the documents. Moreover, you have not sought to obtain his documents from the Independent Counsel, as you have done with other witnesses who provided their

original documents to the Independent Counsel. (See Jan. 31, 1996 letter from Douglas Nappi of the Majority staff to Steve Kubiowski of the Independent Counsel staff, requesting copies of documents produced to the Independent Counsel by Frost & Company, Charles James, Danny Ray Lasater, Robert Palmer, Yoly Redden, and Chris Wade.) Your continued efforts to shield Hale from the Committee's fact-gathering process suggest that you are more interested in political spin than obtaining evidence.

In addition to your nonreply to the central issue in the Hale matter, I must take strong issue with your suggestion that the Committee's investigation has been slowed by the Minority's reluctance to schedule depositions while the Committee was conducting public hearings. Despite the fact that the Majority has more staff and more support from the Banking Committee than the Minority, the Minority has managed to cover all the depositions the Majority has scheduled, even when depositions were scheduled at the same time as public hearings. In fact, it was only after Senator Sarbanes repeatedly urged you and Bob Giuffra to pick up the pace of the depositions, and the Minority staff provided a list of proposed witnesses, that the Majority scheduled any depositions of Whitewater witnesses. I look forward to your explanation as to why the Majority did not even seek to investigate Whitewater until the eighth month of the Committee's life, and then only at the insistence of the Minority.

Since the fall of 1995 I have been telling you that I would not sit quietly by if the timing of Hale's testimony were to be used as a justification to extend the Committee's investigation beyond the February 29, 1996 target date for conclusion. I am sorry we have reached the point where my personal inquiries to you are responded to by the faceless "Majority Staff," and that the substance of the response cannot pass the "red-face test" associated with professional lawyering.

MEMORANDUM

TO: Michael Chertoff
FROM: Richard Ben-Veniste
DATE: April 29, 1996
RE: David Hale Subpoena

As we discussed on Friday, I would like to subpoena David Hale for his hearing testimony, which you have scheduled for Tuesday, May 19, and for a deposition prior to his hearing testimony. I suggest scheduling the deposition for Monday, May 18. Since you do not feel that you will require a lengthy deposition examination, in light of Hale's prior trial testimony, I would expect that we can complete the deposition in a day.

I would like to emphasize, however, that we should send a subpoena to Hale immediately. We should not play games and wait until the last minute to subpoena him. If we subpoena him now, he will have plenty of time to consult with his counsel and advise the Committee prior to May 19 whether or not he will appear.

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